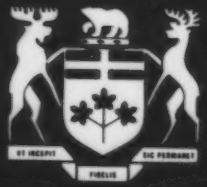
Your Small Business Owner's Guide

The State of Small Business

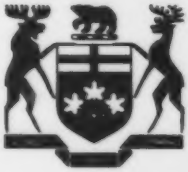


1988

Annual Report on Small Business in Ontario

MINISTRY OF INDUSTRY TRADE AND TECHNOLOGY

The State of Small Business



1988 Annual Report on Small Business in Ontario

Le guide du propriétaire de petite entreprise figure en français aux pages 155 - 177.

89-05522/

Enquiries regarding this publication should be direct

Ministry of Industry, Trade and Technology
Small Business Branch
Small Business Advocacy
Hearst Block, Queen's Park
Toronto, Ontario M7A 2E1

(416) 965-6304

Copies are available from:

Publications Ontario
880 Bay Street
Toronto, Ontario M7A 1N8
(416) 965-2054
Price $10.00

Out-of-town customers write to:

Publications Services Section
5th Floor, 880 Bay Street
Toronto, Ontario M7A 1N8
(416) 965-6015
Toll free 1-800-268-7540
in Northwestern Ontario 0-Zenith 67200

ISSN 0 833-6385

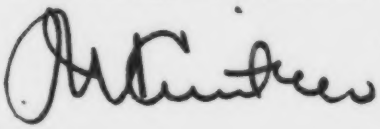
Minister of Industry, Trade and Technology

I am pleased to release the third annual report on *The State of Small Business* in Ontario. This edition continues the tradition, set in 1986, of presenting significant research findings on the contributions of small business to the province's economy and creative government initiatives to nurture entrepreneurship.

I would like to recognize the contribution of my former Parliamentary Assistant, Mr. Rick Ferraro, M.P.P., and his colleagues on the Committee of Parliamentary Assistants for Small Business. They pioneered the concept of an annual report on small business and brought forward innovative proposals for the development of this important sector of our economy.

This valuable work is being carried on by my new Parliamentary Assistant, Mr. Steven Mahoney, M.P.P., who functions as Ontario's Small Business Advocate and chairs the Committee of Parliamentary Assistants for Small Business.

The government of Ontario is proud to support the spirit of entrepreneurship in this province and the men and women who, through the medium of Ontario's small businesses, work to make their dreams a reality, to the greater benefit of us all.



Monte Kwinter
Minister

Committee of Parliamentary Assistants for Small Business 1987-1988

Rick Ferraro, M.P.P.
Chairman
Ministry of Industry,
Trade and Technology

Bob Chiarelli, M.P.P.
Management Board of Cabinet

Shirley Collins, M.P.P.
Ministry of Labour

Joseph Cordiano, M.P.P.
Ministry of
Intergovernmental Affairs

Christine Hart, M.P.P.
Ministry of the Environment

Taras Kozyra, M.P.P.
Ministry of Northern Development

Brad Nixon, M.P.P.
Ministry of Financial Institutions

Harry Pelissero, M.P.P.
Ministry of Tourism and Recreation

Claudio Polsinelli, M.P.P.
Ministry of Treasury and Economics

The Honourable Monte Kwinter
Minister
Ministry of Industry, Trade and Technology
8th Floor, Hearst Block
Queen's Park
Toronto, Ontario

Dear Mr. Minister:

It was a privilege to serve as your Parliamentary Assistant and to chair the Committee of Parliamentary Assistants for Small Business. One of the accomplishments of which I am proudest is the annual report of *The State of Small Business*, now in its third edition.

The 1988 edition focuses in particular upon growth and the opportunities that growth brings. This year, the report celebrates the small business owners that are not content to remain small - those whose vision of success is large and inspiring.

A new feature this year is *The Small Business Owners' Guide*, offering practical suggestions for the entrepreneurs who will generate the growth of tomorrow.

I am delighted that the chair of the Committee of Parliamentary Assistants and the role of Small Business Advocate are devolving to my capable colleague, Mr. Steven Mahoney, M.P.P. I wish him and his incoming Committee the greatest success.

I know you will join with me in thanking my colleagues on the outgoing Committee and your Ministry staff for their dedication and hard work on behalf of Ontario's small businesses.

Yours sincerely,

Rick Ferraro

Rick Ferraro, M.P.P.

Committee of Parliamentary Assistants for Small Business/ Comité des Adjoints Parlementaires pour les Petites Entreprises 1988-89

Steven Mahoney, M.P.P./deputé	
Chairman, Ministry of Industry, Trade and Technology	Président, Ministère de l'Industrie, du Commerce et de la Technologie
Rick Ferraro, M.P.P./deputé	
Ministry of Financial Institutions	Ministère des Institutions financières
Ray Haggerty, M.P.P./deputé	
Ministry of Consumer and Commercial Relations	Ministère de la Consommation et du Commerce
Christine Hart, M.P.P./deputée	
Ministry of Treasury and Economics	Ministère du Trésor et de l'Économie
Linda LeBourdais, M.P.P./deputée	
Ministry of Intergovernmental Affairs	Ministère des Affaires intergouvernementales
Carman McClelland, M.P.P./deputé	
Ministry of the Environment	Ministère de l'Environnement
Jim McGuigan, M.P.P./deputé	
Ministry of Transportation	Ministère des Transports
Dalton McGuinty, M.P.P./deputé	
Ministry of Skills Development	Ministère de la Formation professionnelle
Frank Miclash, M.P.P./deputé	
Ministry of Northern Development	Ministère du Développement du Nord
Brad Nixon, M.P.P./deputé	
Ministry of Housing	Ministère du Logement
Barbara Sullivan, M.P.P./deputée	
Ministry of Labour	Ministère du Travail
Murad Velshi, M.P.P./deputé	
Ministry of Citizenship	Ministère des Affaires civiques

Ministre de l'Industrie, du Commerce et de la Technology

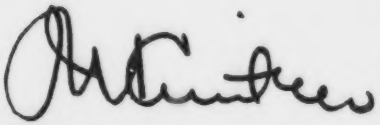
J'ai le plaisir de présenter le troisième rapport annuel sur la situation des petites entreprises en Ontario. Ce dernier suit la tradition établie en 1986, qui consiste à présenter d'importants résultats de recherches sur la contribution des petites entreprises à l'économie de la province et les initiatives originales du gouvernement visant à favoriser l'esprit d'entreprise.

Je tiens à remercier mon ancien adjoint parlementaire, M. Rick Ferraro, député à l'Assemblée législative, ainsi que ses collègues du Comité des adjoints parlementaires pour les petites entreprises. C'est grâce à eux qu'a commencé la rédaction annuelle d'un rapport sur les petites entreprises, et c'est également à eux que l'on doit des propositions innovatrices pour le développement de cet important secteur de notre économie.

Mon nouvel adjoint parlementaire, M. Steven Mahoney, député à l'Assemblée législative, prend la relève à titre de défenseur des petites entreprises et de président du Comité des adjoints parlementaires pour les petites entreprises.

Le gouvernement de l'Ontario est fier d'appuyer l'esprit d'entreprise dans notre province ainsi que les hommes et les femmes qui, en exploitant leurs petites entreprises, s'efforcent de réaliser leurs rêves au bénéfice de l'ensemble de la société.

Le ministre,



Monte Kwinter

Comité des adjoints parlementaires pour les petites entreprises, 1987-1988

Rick Ferraro, député
Président
Ministère de l'Industrie,
du Commerce et de la Technologie

Bob Chiarelli, député
Conseil de gestion du gouvernement

Shirley Collins, députée
Ministère du Travail

Joseph Cordiano, député
Ministère des Affaires
intergouvernementales

Christine Hart, députée
Ministère de l'Environnement

Taras Kozyra, député
Ministère du Développement du Nord

Brad Nixon, député
Ministère des Institutions financières

Harry Pelissero, député
Ministère du Tourisme et des Loisirs

Claudio Polsinelli, député
Ministère du Trésor et de l'Économie

L'honorable Monte Kwinter
Ministre
Ministère de l'Industrie, du Commerce et de la Technologie
Édifice Hearst, 8e étage
Queen's Park
Toronto (Ontario)

Monsieur,

Ce fut un honneur pour moi d'être votre adjoint parlementaire et de présider le Comité des adjoints parlementaires pour les petites entreprises. Le rapport annuel sur la situation des petites entreprises, qui est publié pour la troisième année consécutive, constitue l'une des réalisations dont je suis le plus fier.

Le rapport annuel de 1988 porte en particulier sur la croissance et sur les possibilités qui en découlent. Cette année, le rapport rend hommage aux propriétaires de petites entreprises qui ne se contentent pas de leur situation actuelle, et dont la volonté de réussir constitue une source d'inspiration.

Le rapport annuel comprend une nouveauté cette année : ***Le guide du propriétaire de petite entreprise***, qui offre des conseils pratiques aux entrepreneurs qui, demain, assureront notre croissance.

C'est avec grand plaisir que j'ai appris la nomination de mon collègue, M. Steven Mahoney, aux postes de président du Comité des adjoints parlementaires et de défenseur des petites entreprises. Je lui souhaite, ainsi qu'au Comité, beaucoup de succès.

Je remercie chaleureusement mes collègues du Comité sortant ainsi que le personnel du ministère pour leur dévouement et leur travail acharné au bénéfice des petites entreprises de l'Ontario.

Veuillez agréer, Monsieur, mes salutations distinguées.

Rick Ferraro

Rick Ferraro, député

Contents

List of Charts

List of Tables

Acknowledgements

1 **Introduction** 21
What is a "small business"?; small business facts & figures.

2 **The Mighty Job Creation Machine** 29
Most new jobs in Canada are created by small businesses; growth in jobs occurs mostly in large and in small firms, but less in medium-sized firms; small and very small businesses create jobs in all sectors: primary industries; manufacturing; construction; transportation and communications; wholesale & retail trade; finance, insurance & real estate; services; the distribution of small businesses in Ontario by industry sector; the distribution of small businesses in Ontario by geographic region; an econometric model for forecasting business starts.

3 **Workers and Wages** 41
Hours of work & overtime; unpaid leave a greater problem for larger firms; small businesses more affected by shortening the regular work week; increasing paid vacation a greater problem for small businesses; small businesses need greater flexibility; the debate continues; employment standards in small firms; compensation; training; benefits; vacations and leaves; subcontracting and contracting out; retirement policies; payroll taxes; workers' compensation.

4 **The Dynamics of Growth** 53
Introduction; the challenge of growth for small businesses; non-financial obstacles; financial constraints; management constraints; successful growth strategies; the growth of medium-sized and threshold firms; is growth worth it?.

5 **Opportunities for Growth I: Hi Tech** 65
Scope of high technology in the workplace; the status of small business in the high technology market; the importance of research & development.

6 **Opportunities for Growth II: Procurement** 77
Small business and government purchases; government procurement and the growth of start-up firms; effectiveness of government

preference policies; preference for Canadian suppliers; other federal preference policies; other provincial preference policies.

7 **Opportunities for Growth III: Exporting** 91
Introduction; factors affecting international trade; currency exchange rates; relative interest rates; comparative tax climate; level of market concentration & specialization; productivity and access to improved technologies; relative access to financing; access to United States government procurement contracts; small business response to the FTA; small business changes under the FTA.

8 **Financing Small Business** 99
Constraints to small business growth; debt financing; bank financing; federal government debt financing programs: Small Businesses Loans Act (SBLA); Federal Business Development Bank (FBDB); Export Development Corporation (EDC); provincial government debt financing programs: The Development Corporations; New Ventures; equity financing; venture capital; federal government equity financing programs: FBDB; provincial government equity financing programs: Small Business Development Corporations (SBDC) program; Employee Share Ownership Plan (ESOP); Computerized Ontario Investment Network (COIN); Innovation Ontario Corporation (IOC).

9 **Raising Awareness and Cultivating Entrepreneurs** 121
Instilling the entrepreneurial spirit; the role of education; can entrepreneurship be taught?; how extensively is entrepreneurship being taught now?; the secondary school system; the post-secondary environment; curriculum and delivery: what should be taught and how?; provincial programs in support of entrepreneurship; Entrepreneur '88; publications; seminars; entrepreneur clubs; Start Up; TVOntario; locally-based services; federal initiatives; Community Business Initiative; Operation Youth: Enterprise for Youth Employment; nonprofit initiatives; YMCA Youth Enterprise.

The Small Business Owner's Guide 135
What trends are emerging in Ontario?; government assistance in exporting and procurement; what about growth?; how to get financing for your business; government assistance programs; useful addresses and telephone numbers for further information.

Appendix: Small Business Advocacy Reports 179

List of Charts

1.1 Where the Jobs Are, Ontario, 1986 22
Percentage distribution, by size of firm, of the number of private-sector firms and their employees

1.2 New Incorporations in Ontario, 1975-1987 23
Number of companies incorporated

1.3 New Unincorporated Firms in Ontario, 1979-1987 23
Number of unincorporated businesses registered

1.4 Percentage of Entrepreneurs Who Are Women, Canada, 1970-1985 26

2.1 Job Creation in Ontario and Canada, 1978-1986 30
Total net change in jobs (ALUs) - all industries

2.2 Job Creation in Ontario and Canada, 1978-1986 32
Total net change in jobs (ALUs) - manufacturing

2.3 Job Creation in Ontario and Canada, 1978-1986 34
Total net change in jobs (ALUs) - finance, insurance & real estate

2.4 Job Creation in Ontario and Canada, 1978-1986 36
Total net change in jobs (ALUs) - business and personal services

3.1 Small Business Payroll Taxes per Employee, Ontario, 1981-1988 49

4.1 Output per Hour in Manufacturing, United States, Canada and Japan, 1965-1984 55

4.2 Major Problems Rated by Small Businesses in Ontario, 1988 57
Percentage of small businesses selecting each factor

4.3 How Additional Equity Would Be Used in New Firms, Ontario, 1985 58

5.1 Use of Individual Technologies in the Manufacturing Sector, Ontario, 1987 67

5.2 Use of Advanced Manufacturing Technologies in Small and Large Firms, Ontario, 1988 69

5.3 Site of Automation in Small and Large Firms, Ontario, 1988 70

5.4 Plans for Future Technology Investment by Small Firms, Ontario, 1988 71

5.5 Most Important Source of Information on New Technology, Small and Large Firms, Ontario, 1985 72

5.6 Distribution of Companies Performing R&D by Employment Size, Canada, 1984 75

5.7 Average Percentage of Sales and Personnel Allocated to R&D Expenditures and Staff by Companies Performing R&D, by Employment Size, Canada, 1984 76

6.1 Distribution of Public Sector Procurement Spending by Level of Government, Ontario, 1983 79

6.2 Distribution of Public Sector Procurement Spending by Industry, Ontario, 1983 79

8.1 Regional Distribution of Capital Under Management for Venture Investing as of December 1986, Canada 111

8.2 Total Venture Investments in Canadian and Ontario Small and Medium Enterprises, 1982-1986 111

9.1 Location of Ontario Locally-Based Services 131

List of Tables

1.1 Distribution of Ontario Firms, 1986 24
Distribution, by industry and firm size, of private-sector firms

1.2 Employment Distribution by Sector in Small Firms, Ontario, 1986 26

2.1 Job Creation in Ontario and Canada, 1978-1986 30
Total net change in jobs (ALUs) - all industries

2.2 Job Creation in Ontario and Canada, 1978-1986 31
Total net change in jobs (ALUs) - manufacturing

2.3 Job Creation in Ontario and Canada, 1978-1986 34
Total net change in jobs (ALUs) - finance, insurance & real estate

2.4 Job Creation in Ontario and Canada, 1978-1986 36
Total net change in jobs (ALUs) - business and personal services

2.5 Distribution of Small Businesses by Industry, Ontario and Canada, December 1987 38

2.6 Regional Distribution of Existing Small Businesses, Ontario, December 1986 39

2.7 Regional Distribution of Unincorporated Small Business Starts, Ontario, 1987 39

3.1 Business Owners' Response to Proposed 1-Week Unpaid Leave After 10 Years, Ontario, 1987 42

3.2 Business Owners' Response to Proposed Unpaid Leave Prior to Retirement, Ontario, 1987 43

3.3 **Business Owners' Response to Lowering the Overtime Threshold to 40 Hours Per Week, Ontario, 1987** 43

3.4 **Business Owners' Response to Limiting Overtime to 250 Hours Per Year, Ontario, 1987** 44

3.5 **Business Owners' Response to Proposed 3-Week Paid Vacation After 5 Years, Ontario, 1987** 44

3.6 **Small Business Payroll Taxes per Employee, Ontario, 1981-1988** 49

3.7 **Annual Percentage Increase in Small Business Payroll Taxes, Ontario, 1981-1988** 50

4.1 **Tariffs on Total Government Procurement Expenditures, Ontario, 1984 (est.)** 54
Estimated percentage of expenditure constituting U.S. and Canadian tariffs for selected industries

4.2 **Incidence of Success Factors Among 150 Successful Firms, Illinois, 1988** 60

5.1 **Reasons for Automation in Large and Small Firms, Ontario, 1985** 73

5.2 **Companies Performing R&D, by Industry and Employment Size, Canada, 1984** 74

6.1 **Correlation of Start-up Factors with Annual Level of Sales, Ontario and Canada, 1988** 81

6.2 **Correlation of Government Orientation with Propensity to Export, Ontario and Canada, 1988** 82

6.3 **Correlation of Characteristics of Founding Team and Government Sales, Ontario and Canada, 1988** 83

6.4 **Percentage of Sales by Type of Activity/Client, Ontario and Canada, 1988** 84

6.5 **Technology, Markets and Government Orientation at Start-Up, Ontario and Canada, 1988** 85

6.6 **Organizational Set-Up and Planning by Firms by Orientation, Canada, 1988** 86

7.1 **Shares of Employment and Trade with the U.S., 1985** 91
Ontario manufacturing industries grouped by trade orientation

7.2 **Exporting Behaviour of Small and Medium Enterprises, Canada, 1987** 92

7.3 **Comparative Tax Burdens, Canada & U.S., Manufacturing Sector, 1988** 93
Combined federal/local statutory rates

7.4 **Business Owners' Opinions on Benefit of Free Trade to Their Company by Size of Firm, Ontario, 1988** 96

7.5 **How Small Businesses Expect to Change under FTA, Canada, 1988** 97

8.1 **SBLA Lending by Type of Business Enterprise, Ontario and Canada, 1987-88** 102

8.2 **Federal Business Development Bank Term Lending Activities in Ontario Region, 1985-88, by District** 103

8.3 **Federal Business Development Bank Term Lending Activities in Ontario Region, 1987-88, by Industry** 104

8.4 **Federal Business Development Bank Export Receivables Financing Program** 105
Summary of activity as at April 30, 1988

8.5 **Exports Covered by EDC Insurance Program, by Region and Size of Firm, 1986-87** 106

8.6 **Distribution of New Ventures Loans by Lender as at December 1987** 109

8.7 **Distribution of New Ventures Loans by Region as at December 1987** 109

8.8 **Distribution of New Ventures Loans by Sector as at December 1987** 109

8.9 **Distribution of Companies Venture Financed and Venture Amounts Invested by Stage, Ontario, 1983-1986** 113

8.10 **Average Venture Amount Invested in Ontario Companies by Stage, 1983-1986** 113

8.11 **Distribution of Companies Venture Financed and Venture Amounts Invested by Industry, Ontario, 1983-1986** 114

8.12 **Average Venture Amount Invested in Ontario Companies by Industry, 1983-1986** 115

8.13 **Federal Business Development Bank Venture Capital Investment, Ontario and Canada, 1988** 116

8.14 **SBDC Activity Summary** 117

9.1 **Courses in Entrepreneurship in Canada, 1980 & 1987** 124

Acknowledgements

The Government of Ontario would like to recognize the people who have contributed to the third edition of *The State of Small Business*.

The project was designed and written by Andrew J. Szonyi with the assistance of Richard Bottomley, David Brightling, Michael Szonyi and Byron E. Wall.

The staff of the Small Business Branch of the Ministry of Industry, Trade and Technology, especially Linda Ganong, Small Business Advocate and Jeffrey Stutz, Manager of Small Business Advocacy, contributed immensely to the report.

The assistance of many others is gratefully acknowledged, including:

Rena Blatt, Small Business Office, Industry, Science and Technology Canada
Canadian Bankers' Association
Canadian Federation of Independent Business
Export Development Corporation
Federal Business Development Bank
Innovation Ontario
Ontario Development Corporation
Statistics Canada.

1 Introduction

What is a "Small Business"?

Although there is agreement that small businesses are a vibrant, innovative and expanding part of the economy, different jurisdictions, programs and legislation define the term differently:

- Ontario defines a small business as one which employs fewer than 100 people.
- The federal government draws the line at 50 service sector/100 manufacturing sector employees.
- The federal government uses a ceiling of $2 million annual sales or revenues, as does the Small Businesses Loans Act.

These "quantifiable" definitions overlook some relevant conceptual factors. One can say that a small business also possesses at least two of the following characteristics:

- Management of the firm is independent and usually the managers are also the owners.
- Capital is supplied and ownership is held by an individual, family, or small group.
- The area of operations is mainly local or regional, with the workers and owners often living in one community; however, markets need not be local.
- The firm is not dominant in its industry. Its relative size and market share is small when compared with the largest units in the field. The measure used to determine size can be volume of sales, number of employees or other significant comparison.[1]

Small Business Facts & Figures

In 1986, small businesses comprised approximately 98% of all firms in Ontario.[2]

[1] It should be noted that, due to the scale of the Canadian economy, it is possible for a firm to be dominant in its field and yet still be "small" according to all other relevant criteria, especially when compared to its global competition.

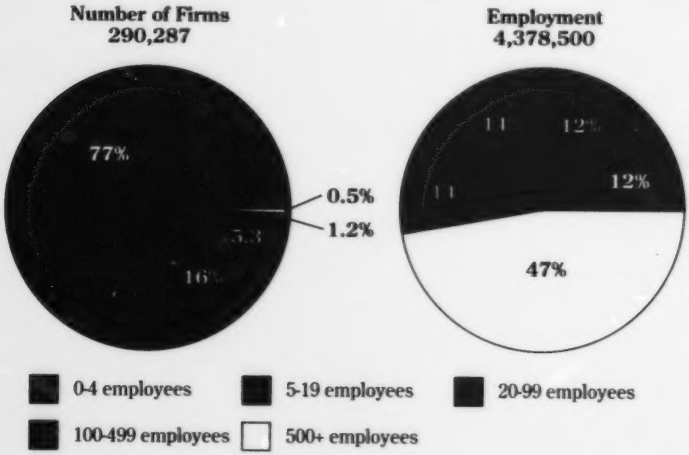
[2] Source: ***Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-1986.*** Statistics Canada. Small Business & Special Surveys and Business Microdata Integration and Analysis. May 1988. This source excludes sole proprietorships and family businesses which do not issue T-4 slips.

In December 1987, there were 404,561 small businesses in Ontario, including sole proprietorships.[3] Over 90% had fewer than 20 employees.[4]

More precise data, calculated on a smaller base, yield the 1986 "snapshots" in Chart 1.1.

Chart 1.1[5] *Where the Jobs Are, Ontario, 1986*

Percentage distribution, by size of firm, of the number of private-sector firms and their employees



In 1987, 127,617 new businesses were formed in Ontario[6] - an 11% increase over the previous year in annual new business formation. Charts 1.2 and 1.3 depict the rise in incorporated and unincorporated firms.

Following the charts are tables showing the distribution of Ontario firms by industry and firm size (Table 1.1) and the employment distribution by sector in small Ontario firms (Table 1.2).

[3] Source: Statistics Canada, Business Register. December 1987.

[4] Source: Statistics Canada, Small Business Statistics Branch. Unpublished data.

[5] Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-86*. Statistics Canada, Small Business & Special Surveys, Business Microdata Integration and Analysis. May 1988.

[6] Source: Ministry of Consumer and Commercial Relations, Companies Branch. Unpublished data.

Chart 1.2[7] *New Incorporations in Ontario, 1975-1987*

Number of companies incorporated

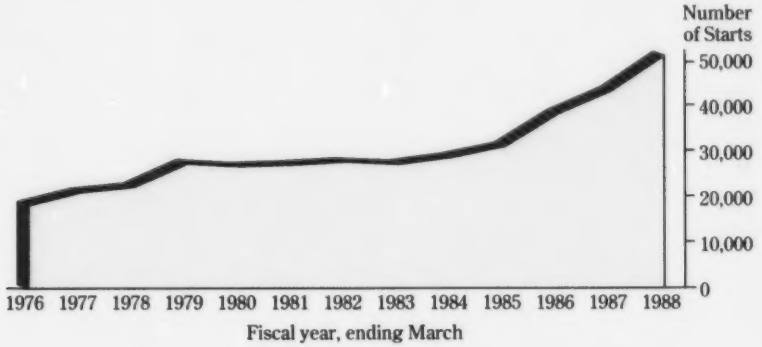
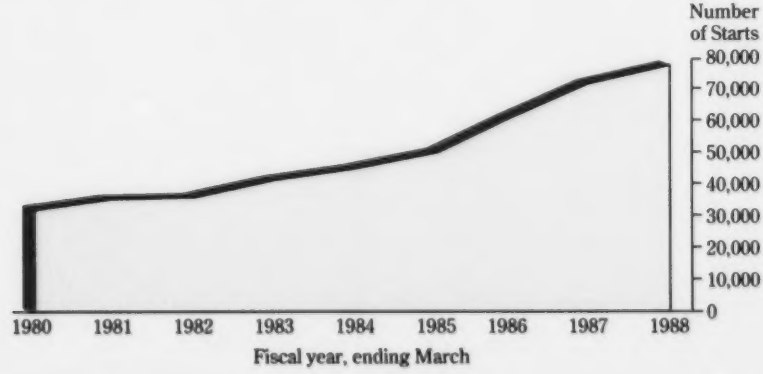


Chart 1.3[8] *New Unincorporated Firms in Ontario, 1979-1987*

Number of unincorporated businesses registered



[7] Source: Internal research, Ministry of Industry, Trade & Technology, 1988, based on data from the Ministry of Consumer & Commercial Relations.

[8] *Ibid.*

Table 1.1[9] *Distribution of Ontario Firms, 1986*

Distribution, by industry and firm size, of private-sector firms

Industry	Percentage of firms that are: Small firms	Medium firms	Large firms	Total	Number of firms
	%	%	%	%	#
Primary	**99.9**	**0.1**	-	**100.0**	**18,219**
Mining	**90.6**	**5.3**	**4.1**	**100.0**	**872**
Manufacturing	**92.5**	**5.4**	**2.1**	**100.0**	**22,455**
• Food & beverage	90.3	5.8	3.9	100.0	1,893
• Tobacco products	40.0	20.0	40.0	100.0	10
• Rubber & plastics	90.5	6.7	2.8	100.0	866
• Leather	83.0	14.0	3.0	100.0	229
• Textiles	86.5	10.2	3.3	100.0	636
• Knitting mills	79.7	17.3	3.0	100.0	133
• Clothing	91.0	7.7	1.3	100.0	883
• Wood	95.0	4.0	1.0	100.0	1,285
• Furniture & fixtures	96.3	3.5	0.2	100.0	1,753
• Paper & allied	82.8	9.5	7.7	100.0	430
• Printing, publishing	96.3	2.8	0.9	100.0	3,159
• Primary metal	81.1	11.9	7.0	100.0	285
• Metal fabricating	95.5	3.5	1.0	100.0	3,944
• Machinery	91.9	5.7	2.4	100.0	1,439
• Transportation equipm't	86.5	8.7	4.8	100.0	867
• Electrical products	88.3	7.9	3.8	100.0	949

• Non-metal mineral prod.	92.6	4.7	2.7	100.0	636
• Petroleum & coal prod.	76.9	5.8	17.3	100.0	52
• Chemicals	82.1	12.7	5.2	100.0	765
• Miscellaneous manuf'ring	95.9	3.2	0.9	100.0	2,241
Construction	**99.3**	**0.6**	**0.1**	**100.0**	**35,787**
Transport./Commun./Util.	**97.3**	**2.0**	**0.7**	**100.0**	**10,079**
Wholesale trade	**97.6**	**2.0**	**0.4**	**100.0**	**19,200**
Retail trade	**99.2**	**0.6**	**0.2**	**100.0**	**46,635**
Finance/Ins'ce/Real est.	**98.5**	**1.0**	**0.5**	**100.0**	**20,243**
Services	**98.7**	**0.9**	**0.4**	**100.0**	**106,928**
• Storage	96.3	2.7	0.1	100.0	296
• Education	89.9	4.5	5.6	100.0	2,198
• Health & welfare	98.0	1.4	0.6	100.0	18,035
• Religious organizations	99.9	0.1	-	100.0	5,911
• Amusement, recreation	99.0	0.8	0.2	100.0	5,150
• Business management	98.7	1.0	0.3	100.0	25,969
• Personal services	99.8	0.2	-	100.0	20,266
• Accommodation, food	98.5	1.2	0.3	100.0	18,817
• Miscellaneous services	99.0	0.8	0.2	100.0	10,286
Unclassified	**100.0**	-	-	**100.0**	**8,757**
Total - all industries	**98.3**	**1.2**	**0.5**	**100.0**	**289,175**

Note: Small business is defined as companies employing fewer than 100 people; medium companies 100-499, large companies more than 500. Excludes sole proprietorships and family businesses which do not issue T-4 slips.

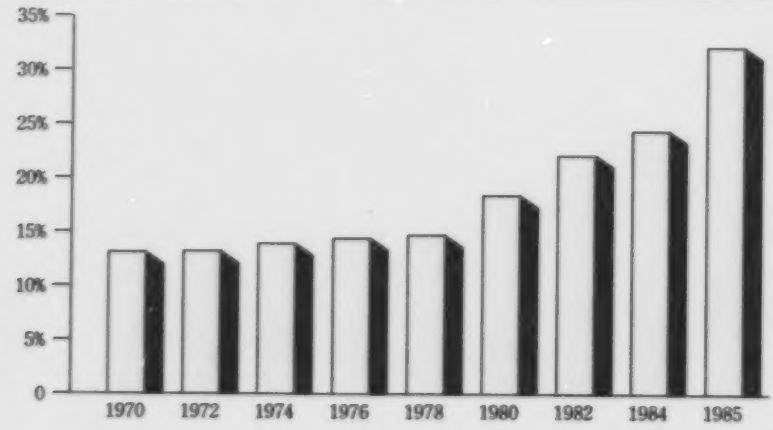
[9] Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-86.* Statistics Canada, Small Business & Special Surveys, Business Microdata Integration and Analysis. May 1988.

Table 1.2[10] *Employment Distribution by Sector in Small Firms, Ontario, 1986*

	Number of Jobs	%
Primary	35,200	2.1
Manufacturing	299,000	17.6
Construction	157,200	9.3
Transportation and Comm.	73,700	4.3
Wholesale Trade	150,100	8.8
Retail Trade	277,800	16.4
Services (excl. Public Admin.)	675,100	39.8
Public Administration	17,100	1.0
Other	12,200	0.7
TOTAL	**1,697,400**	**100.0**

In 1988, 29% of Ontario's newly-formed small businesses are owned by women.[11] Women entrepreneurs are climbing fast, as Chart 1.4 shows.

Chart 1.4[12] *Percentage of Entrepreneurs Who Are Women, Canada, 1970-1985*



[10] *Ibid.*

[11] Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

[12] Source: Revenue Canada.

Female owned and operated ventures accounted for 28% of the participants in Ontario's New Ventures program (as at October 1987).[13] According to data from the New Ventures program, businesses owned by women seem less likely to fail. While women comprised 28% of the borrowers under the program, they made up only 14.6% of the borrowers in default.

Demographic studies on small business ownership suggest that more young people are pursuing entrepreneurial careers. New Ventures program data show that some 50% of the new firms participating in the program are headed by people under age 30 (as at June 1988).

In 1988, Ontario's small business start-ups generated $500 million in new investment.[14] A recent study found that the fastest-growing Ontario companies had average start-up investments of over $350,000 - more than *ten times* the average seed capital invested in a cross-section of all new firms.[15]

Ontario small businesses received $217 million in term loans under the federal Small Businesses Loans Act during fiscal 1987-88.[16]

The survival rates for small business enterprises are remarkably stable. Approximately 69% of Canadian businesses are still in existence in the third year following their formation.[17] It is unclear what percentage of exits are attributable to mergers and acquisitions as opposed to business failures. It may be that one-quarter of apparent failures in the 20-100 employee size range are due to takeovers rather than collapses.[18]

---

[13] Source: Ministry of Industry, Trade & Technology and Ontario Development Corporation, *New Ventures Preliminary Results*, February 1988.

[14] Source: MITT Estimate.

[15] Source: *Ontario's Fast Growth Companies*, Small Business Advocacy Report No. 18, April 1987. Prepared by Decision Marketing Research Ltd.

[16] Source: Small Businesses Loans Act *Annual Report*, March 31, 1987.

[17] Source: Statistics Canada. Unpublished data for successive 3-year periods ending 1981-84. Includes firms with employees only.

[18] Source: MITT Estimate.

2 The Mighty Job Creation Machine

Most New Jobs in Canada are Created by Small Businesses

The point has been made many times, but it bears repeating: small business is the engine of job creation. Firms with fewer than 100 employees accounted for 1,697,000 jobs in Ontario in 1986 - 39% of all jobs in Ontario, and 42% of jobs in the private sector.[1]

Small business continues to be the most dynamic source of job creation. From 1978 to 1986, 73% of all net new jobs in Ontario came from businesses with fewer than 100 employees. Fifty-nine percent of net new jobs in this period came from Ontario firms with fewer than 20 employees.[2]

Growth in Jobs Occurs Mostly in Large and in Small Firms, but Less in Medium-Sized Firms

The most evident trend in job creation in the 1980s is the move toward fewer, but larger, firms, at one extreme, and at the other extreme, greater numbers of very small firms. Firms caught in the middle are either growing more slowly, or are shrinking, both in total numbers of firms and in numbers of jobs provided. This is a trend across Canada; indeed, the trend is more pronounced outside Ontario.

As Table 2.1 shows, Ontario firms with 100 to 500 employees created only 11% of net new jobs in the period 1978-1986. For Canada as a whole, only 7% of net new jobs were created by firms with 100 to 500 employees, while firms with 500 or more employees created 9% of net new jobs and firms with fewer than 100 employees created 84% of net new jobs.

---

[1] Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-1986.* Statistics Canada. Small Business & Special Surveys and Business Microdata Integration Analysis. May 1988. This source excludes sole proprietorships and family businesses which do not issue T-4 slips.

[2] *Ibid.*

Table 2.1[3] *Job Creation in Ontario and Canada, 1978-1986*

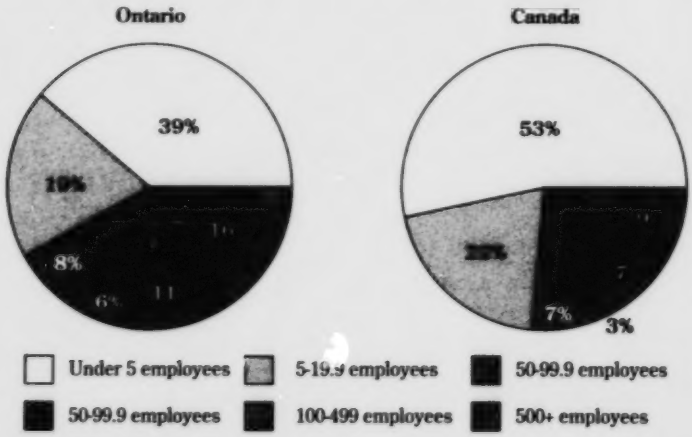
Total net change in jobs (ALUs)* - all industries**

Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
<5	316.6	39	863.4	53
5-19.9	156.5	19	352.0	22
20-49.9	67.3	8	110.1	7
50-99.9	51.4	6	44.5	3
100-499.9	84.9	11	117.3	7
500+	130.6	16	141.6	9
All firms	**807.2**	**100**	**1629.1**	**100**

*Average Labour Units (ALUs) are calculated by dividing the annual payroll of a firm (per province), as reported to Revenue Canada, by an appropriate estimate of average earnings for each standard industry classification (SIC) code.
**SIC Codes 000-999.

Chart 2.1[4] *Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - all industries



[3] *Ibid.*
[4] *Ibid.*

Small and Very Small Businesses Create Jobs in All Sectors

As the economy waxes and wanes and as the configuration of industry shifts, sectors of industry grow or diminish in accordance with changing needs. It is amazing that, almost without exception, through good times and bad, in all sectors of industry, whether experiencing overall growth or overall stagnation and decline, new jobs are constantly being created by small and very small businesses. There is considerable variation by sector in the quantity of new jobs and the size of small business from which the greatest gains emanate.

Primary Industries

There was little change in employment in primary industries (mostly agriculture) over the period 1978-86, with 5,900 net new jobs added. Of those, 81% were provided by businesses with fewer than 5 employees, and 100% were provided by businesses of fewer than 100 employees.

Manufacturing

In manufacturing, Ontario had a net gain of 64,100 jobs during 1978-86, compared with a net loss of 3,400 for Canada as a whole. Ontario's growth all came from small businesses. Firms employing fewer than 100 people provided 107,600 net new jobs, while firms with over 100 employees *lost* a total of 49,900 net jobs.

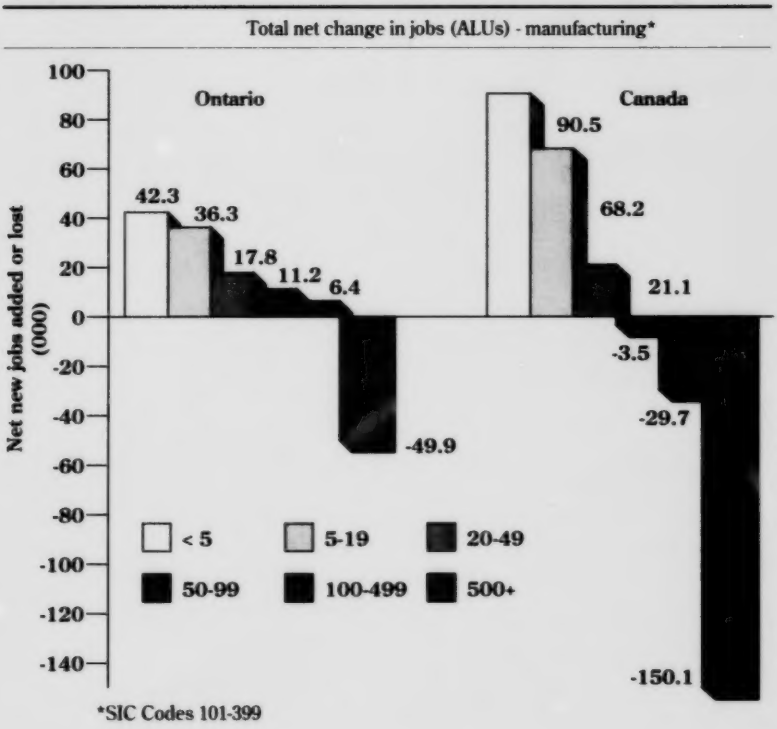
Table 2.2[5] *Job Creation in Ontario and Canada, 1978-1986*

	Total net change in jobs (ALUs) - manufacturing*			
Number of employees (ALUs)	**Ontario**		**Canada**	
	(000)	%	(000)	%
<5	42.3	66	90.5	N/A
5-19.9	36.3	57	68.2	N/A
20-49.9	17.8	28	21.1	N/A
50-99.9	11.2	17	-3.5	N/A
100-499.9	6.4	10	-29.7	N/A
500+	-49.9	-78	-150.1	N/A
All firms	**64.1**	**100**	**-3.4**	**100**

*SIC Codes 101-399

[5] *Ibid.*

Chart 2.2[6] *Job Creation in Ontario and Canada, 1978-1986*



*SIC Codes 101-399

Construction

Construction industries added a net 44,200 new jobs in Ontario during 1978-86, and a net 36,800 new jobs in Canada. This indicates that in Canada, outside of Ontario, there was a net job loss in the construction industry. The gains all came from small businesses. Firms with fewer than 5 employees were responsible for 37,200 net new jobs in Ontario (84% of net Ontario growth), and for 90,400 net new jobs nationally (246% of the net national gain).

[6] *Ibid.*

Transportation and Communications

The transportation and communications industries were net job losers both provincially and nationally during 1978-86. But the losses came from the large firms. In Ontario, 55,300 net jobs were lost in the period. Firms with 500 or more employees lost 83,900 net jobs, which more than cancelled the 24,300 net new jobs added by firms with fewer than 50 employees.

Wholesale & Retail Trade; Finance, Insurance & Real Estate

The wholesale and retail trade sectors, as well as the finance, insurance and real estate sector, exhibited the curious phenomenon of strength at the extremes and weakness in the middle. The similarities between these sectors perhaps relate to their common sensitivity to the economic cycle.

Wholesale trade had a net gain of 42,900 jobs in Ontario and 67,600 jobs in Canada during 1978-86. Of these, 89% of the Ontario gains and 126% of the national gains were from firms with fewer than 20 employees.

Retail trade had a net gain of 129,400 jobs in Ontario and 339,100 in Canada. All business size categories showed gains, but 51% of the Ontario gains and 60% of the national gains were from firms with under 20 employees, while 27% of the Ontario gains and 26% of the national gains came from firms with 500 or more employees. Only 22% of the Ontario gains and 14% of the national gains were produced by the broad range of firms with 20 to 500 employees.

The picture in the finance, insurance and real estate sector is similar. Net jobs gained were 80,100 in Ontario and 120,700 in Canada, and all business size categories showed gains. However, 37% of gains in Ontario and 52% nationally were from firms with fewer than 20 employees, while 41% of gains in Ontario firms and 28% nationally were from firms with 500 or more employees. This left 21% of gains in Ontario and 20% nationally to firms with 20 to 500 employees.

Table 2.3[7] *Job Creation in Ontario and Canada, 1978-1986*

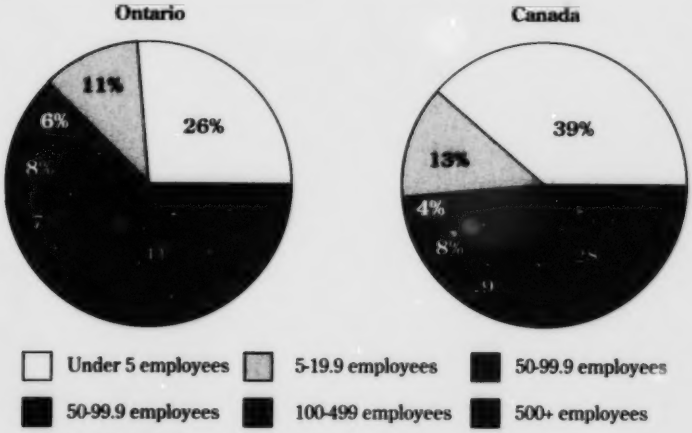
Total net change in jobs (ALUs) - finance, insurance & real estate*

Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
<5	20.5	26	47.0	39
5-19.9	9.2	11	16.2	13
20-49.9	4.7	6	4.5	4
50-99.9	6.7	8	9.3	8
100-499.9	6.0	7	10.4	9
500+	33.1	41	33.3	28
All firms	**80.1**	**100**	**120.7**	**100**

*SIC Codes 701-799

Chart 2.3[8] *Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - finance, insurance & real estate*



*SIC Codes 701-799

[7] *Ibid.*
[8] *Ibid.*

Services

The service sector has been growing in recent years. A recent study of young small businesses in Ontario (those started in the past six years) revealed that, of 944 businesses surveyed, 414 (43.9%) were in service-type businesses.[9]

All types of services are expanding and all sizes of businesses in this sector are adding new jobs. However, the pattern of growth in the large and small firms, and less growth in the middle, repeats itself in this sector.

In community services (education, health and welfare services, and religious organizations), there were 143,700 net new jobs in Ontario in 1978-86 and 376,600 nationally. In this area, the larger firms were strongest. Firms with 100 or more employees were responsible for 59% of net new jobs in Ontario and 51% nationally. Firms with fewer than 20 employees created 34% of net new jobs in Ontario and 37% nationally. The firms in the range of 20 to 100 employees were weakest in job creation.

In business and personal services, net new jobs created were a robust 218,000 in Ontario and 499,100 in Canada. Though all sizes of firms added jobs, the greatest contributions came from firms with fewer than 50 employees, which accounted for 70% of the new jobs in Ontario and 79% in Canada.

---

[9] Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

Table 2.4[10] *Job Creation in Ontario and Canada, 1978-1986*

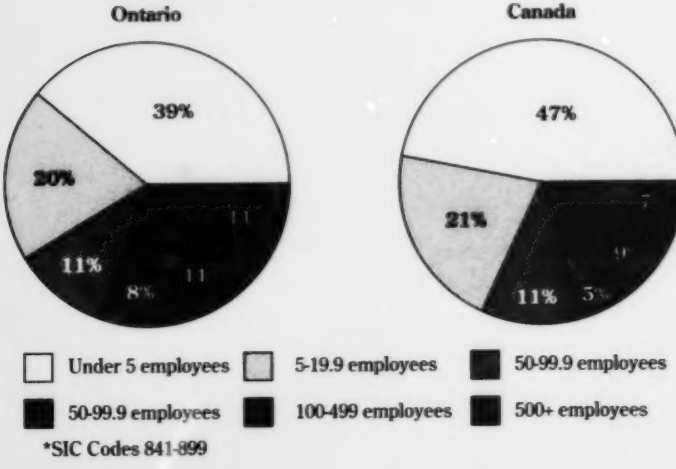
Total net change in jobs (ALUs) - business and personal services*

Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
<5	86.0	39	232.8	47
5-19.9	44.4	20	106.6	21
20-49.9	23.0	11	53.1	11
50-99.9	17.2	8	24.8	5
100-499.9	24.2	11	45.5	9
500+	23.2	11	36.4	7
All firms	**218.0**	**100**	**499.1**	**100**

*SIC Codes 841-899

Chart 2.4[11] *Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - business and personal services*



[10] Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-1986.* Statistics Canada. Small Business & Special Surveys and Business Microdata Integration and Analysis. May 1988.

[11] *Ibid.*

Not surprisingly, public administration - the arms of government - is dominated by large organizations. The bulk of public administration jobs, both federal and provincial, was created in organizations with over 500 employees.

The Distribution of Small Businesses in Ontario by Industry Sector

Small businesses in Ontario are spread through all industry sectors, though they tend to be more heavily represented in the sectors where business success is subject, not to size or economies of scale, but to factors such as specialization, customer service and quickness of response. Services, retail trade and construction account for 75% of small businesses in Ontario, and 72% nationally.

Table 2.5 gives a breakdown of the number of businesses registered as at December 1987 by industry sector for Ontario and for Canada. Also shown is the ratio of Ontario to Canadian firms for each sector. When compared with the ratio of the totals (32.7%), Ontario is, as expected, underrepresented in fishing and trapping. Less obvious is why Ontario should be underrepresented in small businesses engaged in government services.

Table 2.5[12] *Distribution of Small Businesses by Industry, Ontario and Canada, December 1987*

Industry (1980 S.I.C.)	**Ontario**		**Canada**		
	# firms	%	# firms	%	Ont./Can.
Agriculture	27,076	6.7	108,707	8.8	24.9
Fish'g & trapp'g	379	0.1	7,729	0.6	4.9
Logg'g & forestry	1,554	0.4	10,601	0.9	14.7
Min'g, quarry'g, oil	1,637	0.4	9,331	0.8	17.5
Manufacturing	22,413	5.5	56,767	4.6	39.5
Construction	52,943	13.1	146,281	11.8	36.2
Transport'n, storage	11,095	2.7	45,564	3.7	24.4
Communicat'ns, util.	2,020	0.5	6,459	0.5	31.1
Wholesale trade	23,081	5.7	66,794	5.4	34.6
Retail trade	67,258	16.6	211,186	17.1	31.8
Finance & insur.	13,319	3.3	35,681	2.9	37.3
R.E., ins. agents	18,097	4.5	48,977	4.0	36.9
Business services	36,999	9.1	100,080	8.1	37.0
Government services	1,466	0.4	8,141	0.7	18.0
Education services	2,230	0.6	7,308	0.6	30.5
Health, soc. serv.	21,963	5.4	61,916	5.0	35.5
Accommodation, food	27,369	6.8	85,614	6.9	32.0
Other services	73,557	18.2	218,665	17.7	33.6
Other SIC	105	-	226	-	46.5
All Industries	**404,561**	**100.0**	**1,236,027**	**100.0**	**32.7**

The Distribution of Small Businesses in Ontario by Geographic Region

There are more existing small businesses and more new businesses being started per capita in the more populous regions of Ontario. For example, the number of existing small businesses per capita in Metropolitan Toronto is a third higher than that in Northern Ontario - 43.4 per 1000 population compared to 32.4 per 1000 - and, even more striking, the number of start-ups is nearly five times as great - 15.5 per 1000 versus 3.3 per 1000.

[12] Source: Statistics Canada, Business Register. December 1987. This source registers unincorporated businesses and business startups, a somewhat different measure from the data cited earlier.

This means that not only are there fewer opportunities for employment in small businesses in less populous regions, there is less likelihood of more opportunities in the future. It is for this reason that government programs are designed especially to encourage the development of small businesses outside of the major centres in Ontario.

Table 2.6[13] *Regional Distribution of Existing Small Businesses, Ontario, December 1986*

Region	No. of businesses	No. per 1000 pop.
Metro Toronto	92,800	43.4
Central Ontario	124,600	37.2
Southeast Ontario	44,700	36.5
Southwest Ontario	50,100	39.1
Northern Ontario	26,800	32.4
Total	**339,000**	**38.5**

Table 2.7[14] *Regional Distribution of Unincorporated Small Business Starts, Ontario, 1987*

Region	No. of new businesses	Start-ups per 1000 pop.
Metro Toronto	33,225	15.5
Central Ontario	29,400	8.8
Southeast Ontario	5,025	4.1
Southwest Ontario	4,650	3.6
Northern Ontario	2,700	3.3
Total	**75,000**	**8.5**

An Econometric Model for Forecasting Business Starts

Although business starts are recognized as an important source of job creation, little is known of the economic and demographic factors that might be related to the formation of new businesses.

A recent study[15] undertook to help determine those factors and the

[13] Source: Statistics Canada, Business Register. December 1986.

[14] Source: Ministry of Consumer and Commercial Relations, Companies Branch. Unpublished data.

[15] *Business Starts in Ontario: An Econometric Analysis and Forecasting Model*, Small Business Advocacy Report No. 23, August 1987. Prepared by Quantec Research Ltd.

related issue of generating forecasts of new businesses using explanatory variables.

The study demonstrates that business starts are clearly related to industrial structure and economic variables such as real growth, unemployment and inflation rates, real interest rates, and labour force growth. Other factors, such as age and sex ratios, were shown to have negligible impact.

In terms of magnitude, industrial structure had the greatest impact on variations in the rate of business formation when cross-sectioned data were examined across provinces. However, this finding is of limited applicability for time-to-time comparisons, since industrial structure changes very slowly through time.

A select handful of other economic variables, available through time, proved to have some explanatory power in accounting for year-to-year differences in business starts. Overall though, these economic variables had a relatively minor impact when compared with industrial structure.

The study includes a forecasting model to estimate starts based on four key variables: unemployment rate, rate of inflation, real interest rate, and an Ontario labour force estimate. The model, available on IBM PC compatible microcomputer diskette, can be updated by the user as more recent data on starts and associated variables are added to the data base.

3 Workers and Wages

Hours of Work & Overtime

When full-time employees work beyond their regular hours, less work remains to be done and job opportunities for the unemployed are reduced. Government regulations limiting the amount of overtime that can be demanded of employees and regulating the rates at which overtime work must be paid can therefore affect job openings. But while large businesses can lower overtime work and add more positions to provide the necessary labour coverage, small businesses may be less able to solve their need for extra labour in this way.

In 1986, when unemployment averaged 9.6% in Canada and 7.0% in Ontario, some of the employed were working a record number of hours of overtime. From the point of view of social policy, it was not advantageous to have many workers unable to find a job while others were working beyond a regular full-time load. The Ontario Ministry of Labour commissioned a Task Force to recommend possible changes to the Employment Standards Act to improve the balance of supply and demand for labour.

The Task Force on Hours of Work and Overtime completed the first phase of its report in May 1987. The Task Force reported that laws which regulated the use of scheduled overtime were regularly being flouted, and made a number of recommendations for change, including setting the limit of a regular work week at 40 hours instead of the current 44, and prohibiting the practice of compulsory overtime (currently up to 4 extra hours per week).

Realizing that any changes to labour legislation recommended by the Task Force could have a disproportionate effect upon small business, two studies were commissioned by Small Business Advocacy in the Ministry of Industry, Trade and Technology to gain an understanding of the way overtime was used in small firms and the impact of the proposed changes.

The first study, *Hours of Work and Overtime in Small Business: Five Case Studies* (SBA Report No. 15, December 1986), qualitatively examined the overtime practices in five firms: sewer and water main construction, clothing manufacture, courier service, lumber supply, and weigh scale repair service. This study was submitted to the Task Force for its consideration in early 1987.

The second study, *Hours of Work and Overtime in Small Business*

(SBA Report No. 24, January 1988), surveyed a randomly-selected sample of 300 small firms (with fewer than 100 employees) and compared the results with a control group of 60 large firms.

The second study tested the reactions of small business owners to the Task Force recommendations. The study found that the Task Force proposals were unlikely to have a significant effect on the overall average hours worked per week in Ontario, but that some of the recommendations would affect small and large firms differently. In particular, the recommendations which would affect the compensation of workers per hour worked had a greater impact on small businesses than on larger firms, while the recommendations affecting the annual number of days a fulltime worker was on duty had a greater impact on larger firms.

Unpaid Leave a Greater Problem for Larger Firms

The Task Force recommended giving employees with over 10 years of service the right to take unpaid leaves of 1 week per year and additional unpaid leave beginning 4 years prior to retirement. Entitlement to additional leave would accrue at the rate of 1 week per year to a maximum of 4 additional weeks.

Few small companies saw these policies as problematic, but a majority of the larger firms did see both suggestions as potentially causing difficulties.

Table 3.1[1] *Business Owners' Response to Proposed 1-Week Unpaid Leave After 10 Years, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would be a major problem for firm	11	32
Would be a minor problem for firm	15	20
Would have little or no effect	56	32
Would have little or no effect because have similar policy now	18	16
Total	**100**	**100**

[1] Source: *Hours of Work and Overtime in Small Business*, Small Business Advocacy Report No. 24, January 1988. Prepared by Decision Marketing Research Ltd.

Table 3.2[2] *Business Owners' Response to Proposed Unpaid Leave Prior to Retirement, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would be a major problem for firm	17	32
Would be a minor problem for firm	18	28
Would have little or no effect	60	32
Would have little or no effect because have similar policy now	5	8
Total	**100**	**100**

Small Businesses More Affected by Shortening the Regular Work Week

Present legislation defines the regular work week as 44 hours, with overtime rates payable for any hours worked in excess of 44. The Task Force proposed lowering the hours of regular work to 40 hours per week. While most firms interviewed reported that they would simply adjust and pay overtime according to the changed regulations, a greater percentage of small companies than larger companies reported that they would reduce overtime hours due to the changed regulations.

Table 3.3[3] *Business Owners' Response to Lowering the Overtime Threshold to 40 Hours Per Week, Ontario, 1987*

Predicted course of action	Small Companies	Large Companies
	%	%
Pay according to changed rules	51	62
Pay that/better than that now	7	18
Reduce overtime and hire more workers	13	10
Reduce overtime hours	14	3
Disregard the law	3	2
Company not covered by this ruling	5	2
Miscellaneous	7	3
Total	**100**	**100**

[2] *Ibid.*
[3] *Ibid.*

In lieu of defining what constitutes a normal work week, the Task Force recommended a different proposal to discourage overtime: setting the maximum number of overtime hours per year at 250 hours. Neither large nor small businesses in the study viewed this proposal as an improvement over the present legislation. Most of the firms interviewed (64% of small businesses and 57% of large businesses) indicated that the proposal would make no difference to their firms.

Table 3.4[4] *Business Owners' Response to Limiting Overtime to 250 Hours Per Year, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would work better than present system	7	15
Would make no difference	64	57
Would not work as well	29	28
Total	**100**	**100**

Increasing Paid Vacation a Greater Problem for Small Businesses

The Task Force recommended that employees with 5 or more years of service be entitled to at least 3 weeks of paid vacation per year. This proposal caused few problems for larger businesses because the majority of them already have such a policy. However, 34% of small firms saw this policy as a problem for them.

Table 3.5[5] *Business Owners' Response to Proposed 3-Week Paid Vacation After 5 Years, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would be a major problem for firm	13	5
Would be a minor problem for firm	21	3
Would have little or no effect	27	10
Would have little or no effect because have similar policy now	39	82
Total	**100**	**100**

[4] *Ibid.*
[5] *Ibid.*

Small Businesses Need Greater Flexibility

If small businesses have difficulty with suggestions that would prevent or discourage the use of overtime, it is reasonable to ask what purposes are served by overtime work at present. The study asked an open-ended question of the interviewed firms to find out why they used overtime to increase production, rather than some other means, such as: increasing staff, buying additional equipment, adding another shift, and so on.

Both small and large companies gave a variety of responses, with the predominant answer from both relating to customer demand. Though more small businesses than larger ones cite meeting schedules as a reason for using overtime, the most striking aspect is the overall similarity of responses from both large and small businesses. If there are differences in the way overtime usage affects small and large businesses, the differences lie not in ***why*** overtime is used, but in ***the consequences*** for different-sized firms if the amount of allowable overtime is restricted.

The Debate Continues

In April 1988, the Task Force delivered the second phase of its report, recommending new standards for the length of the regular work week and for the maximum amount of overtime for agricultural workers, domestics, truck drivers and construction workers - groups previously excepted from the *Employment Standards Act*. Like Phase One, Phase Two seeks to balance the rights of the fully employed to be paid a premium for overtime and to refuse overtime work without jeopardizing their jobs with the employers' need for the flexibility of overtime. Whether the government adopts the Task Force proposals and whether the recommendations will balance the competing interests without introducing hardships, especially for small businesses, still remains to be seen.

Employment Standards in Small Firms

To clarify small business concerns about changes to the *Employment Standards Act*, Small Business Advocacy commissioned a study to interview by telephone a sample of 307 small Ontario businesses and a control group of 25 larger firms.[6]

---

[6] Source: *Employment Standards in Small Firms in Ontario*, Small Business Advocacy Report No. 28, March 1988. Prepared by Urban Dimensions Group, Inc.

Compensation

Among the smallest of small businesses interviewed (those with fewer than 9 employees), 6.8% had at least some employees who earned the minimum wage. As establishment size increased, the propensity to employ minimum-wage-earners declined and the proportion of employees earning higher hourly wages increased.

Most small businesses did not attempt to recruit employees at the minimum wage; however, 5.9% reported that it was easy or very easy to do so, while 7.8% reported that it was difficult or very difficult.

Over 70% of the small businesses felt that an increase in the minimum wage would have no effect on employment levels in various parts of their workforce (e.g. fulltime, part-time) or their ability to compete effectively.

The most important factor in the wage setting practices of all the businesses interviewed was the individual merit of the employee. This factor was selected by 69.1% of the small businesses and 76.7% of the control group. The larger, control group firms placed more emphasis on collective bargaining (44.0% vs. 13.7% of the small firms) in their wage setting practices. The control group firms also placed more emphasis on all other wage setting factors with the exception of "ability to pay" - this is a factor for 46.9% of small businesses compared to 40.0% of control group firms.

Training

Of the small businesses interviewed, 44.6% spent less than $200 a year on the training and development of minimum and low wage employees.

Benefits

Over 50% of the small businesses interviewed offered such benefits as group life insurance, vision care, hearing or dental plan, short-term sickness plan, and bereavement or compassionate leave. Less than 50% offered such benefits as company-paid OHIP (in full or in part), pension plan, paid maternity leave, and long term income protection.

Vacations and Leaves

According to the *Employment Standards Act*, employers must provide their employees with 2 weeks of vacation after 1 year of service. 81.1% of the small businesses interviewed did so. As well, 69.7% reported that an increase in required vacation time from 2 to 3 weeks would have no effect

on the size of their workforce, and 66.1% thought that it would have no effect on their ability to compete effectively.

Control group firms were more likely than small businesses to offer 3 or more weeks vacation after 1 year (20.0% vs. 8.5%), and after 5 years (76.0% vs. 58.0%).

The *Act* also requires employers to entitle employees to 7 public holidays per year with pay. Nearly half (48.3%) the small businesses interviewed provided employees with more than 10 public holidays in a calendar year.

Seventeen weeks of unpaid pregnancy leave (the length of time required by the *Act*) was provided by 68.4% of the small businesses interviewed. 9.8% of them filled pregnancy leave vacancies with new permanent employees. Increasing pregnancy leave from 4 to 6 months would increase the likelihood (by about 3 times) of employers filling pregnancy leave vacancies with new permanent employees. Control group firms were less likely to leave a pregnancy leave vacancy unfilled (8.0% vs. 17.3%).

Less than 20% of small businesses interviewed felt that changes in vacation time, public holidays, overtime pay, unpaid pregnancy leave and hours of work would have a high impact on their ability to compete effectively.

A higher proportion of control group firms expected greater impact from changes in vacation time, public holidays, overtime pay, unpaid pregnancy leave, and hours of work. Overtime pay was of greatest concern: 56.0% of control group firms vs. 19.2% of small businesses expected a high impact. Hours of work came next in importance, with 40% of the control group expecting a high impact vs. 19.2% of small businesses.

Subcontracting and Contracting Out

Three-quarters of the small businesses interviewed did not receive subcontracting work from other firms. Of those which did, only 6.2% received 50% or more of their business from subcontracting. 56.0% did not contract out work to other firms. Those which did did so principally to meet excess demand or compensate for lack of skills or expertise in their workforce. A significant number of small businesses expected significant workforce or competitive impacts from government policy that might reduce their ability to operate as subcontractors or to contract out.

Retirement Policies

Over 80% of small businesses interviewed did not have a mandatory retirement policy. Only 4.6% expected workforce problems if mandatory retirement were eliminated. Control group firms were more likely to have mandatory retirement policies (24.0% vs. 15.0% of small businesses) and were somewhat more likely to expect workforce problems if they could no longer enforce mandatory retirement.

Payroll Taxes

The term "payroll taxes" refers to amounts collected by governments from businesses on the basis of the wages the businesses pay to employees. Payroll taxes are source deductions, such as workers' compensation, unemployment insurance premiums and Canada Pension Plan contributions. Employers are legally bound to remit these taxes to the respective level of government.

The burden of payroll taxes affects all businesses, large and small. However, the effect upon small businesses is especially critical as it places a greater burden upon the segment of employers which creates the greatest number of new jobs each year. A policy which makes job creation more difficult increases the proportional burden of payroll taxes upon the remaining jobs.

Payroll taxes in Ontario per small business employee have doubled in the seven years from 1981 to 1988: from $904 per employee in 1981 to $1,871 in 1988. All payroll taxes have increased: in the 1981 to 1988 period, unemployment insurance premiums increased by an average of 9.2%, Canada Pension Plan premiums by an average of 6.7%, and workers' compensation premiums by 15.7%.

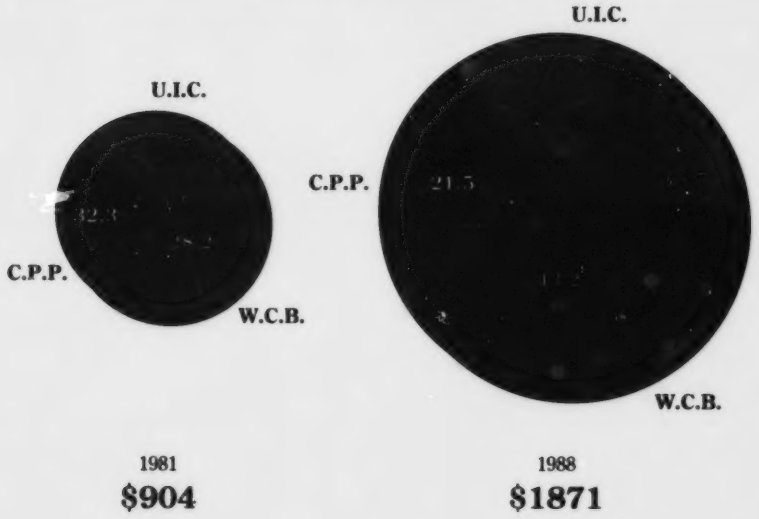
Payroll taxes are an ever-increasing portion of total payroll costs. In 1981, payroll taxes in Ontario for small businesses were 6.38% of the average small business total payroll. In 1988, that figure rose to 9.31%. The largest increase was in workers' compensation premiums, which rose from 2.06% of payroll in 1981 to 4.02% in 1988.[7]

[7] Source: Small Business Branch unpublished data.

Table 3.6[8] *Small Business Payroll Taxes per Employee, Ontario, 1981-1988*

	1981	1982	1983	1984	1985	1986	1987	1988
					$			
U.I.	357	355	523	547	585	607	630	661
C.P.P.	255	276	292	306	320	332	364	402
W.C.B.	292	350	412	469	544	647	732	808
Total	**904**	**981**	**1227**	**1322**	**1449**	**1586**	**1726**	**1871**

Chart 3.1[9] *Small Business Payroll Taxes per Employee, Ontario, 1981-1988*



[8] *Ibid.*
[9] *Ibid.*

Table 3.7[10] *Annual Percentage Increase in Small Business Payroll Taxes, Ontario, 1981-1988*

	Unemployment Insurance %	Canada Pension Plan %	Workers' Compensation %
1981-1982	-.6	8.2	19.9
1982-1983	47.3	8.2	17.7
1983-1984	4.6	4.8	13.8
1984-1985	7.0	4.6	16.0
1985-1986	3.8	3.8	18.9
1986-1987	3.8	9.6	13.1
1987-1988	4.9	10.4	10.4
Average 1981-1988	**9.2**	**6.7**	**15.7**

Workers' Compensation

Funds collected from the province's employers pay for the workers' compensation scheme. It is a government-run insurance plan to provide compensation, health care, and vocational rehabilitation to Ontario employees who suffer injuries related to their work. As with other "payroll taxes," both the proportional amount of the taxes and the administrative burden of accounting and reporting fall more heavily on smaller businesses than larger ones.

In the period between 1975 and 1986, cash requirements per worker covered increased, in inflation-adjusted dollars, by about 50% per worker in benefits and about 64% per worker in administrative and other costs. The average assessment rate for employers, as a percentage of labour dollars, doubled. As a percentage of total benefits paid, administrative costs rose from 14% to 18%. Cash benefits paid, as a percentage of assessable payroll, increased from close to 1% to close to 1.7%.[11]

According to a study commissioned by the Canadian Federation of Independent Business,[12] the escalation of workers' compensation premiums can be traced to two recent developments: (1) the costs of providing current benefits under the program have risen dramatically; and (2) the unfunded liabilities relating to possible future claims have greatly increased.

[10] *Ibid.*

[11] Source: *Workers' Compensation in Ontario: A Study of the Costs, Impacts and Strategies for Responsible Control.* Canadian Federation of Independent Business, 1987.

[12] *Ibid.*

(1) Three significant changes have affected the current cost of the program:

1. The average number of days following an injury before workers return to their jobs has increased from 44 days in 1976 to 56 days in 1986.

2. The likelihood of an injured worker receiving a permanent partial disability pension has increased. Combined with pension benefits indexed to inflation and longer-lived pensioners, the cash requirements of current pension payments have increased significantly.

3. The Workers' Compensation Appeals Tribunal, created in 1985, is responsible for protecting workers' rights under the *Workers' Compensation Act*, but it is not responsible for ensuring that any particular level of expenditure is maintained by the Board. A successful appeal to the Tribunal naturally results in a higher award for the injured worker. The number of appeals granted in whole or in part, as a percentage of the total number of appealed decisions, increased from 27% in 1978 to nearly 50% in 1986.

(2) The unfunded liability is an actuarial projection of future cash requirements for compensation benefits which are not provided for by the current level of assessments. The continually increasing unfunded liability thus becomes a disproportionate burden on future employers.

4 The Dynamics of Growth

Introduction

Although Ontario's small businesses have scored significant successes in recent years, there is some concern about their ability to grow into medium-sized companies.

- Ontario's Ministry of Industry, Trade and Technology (MITT) reports that of Canadian firms employing fewer than 20 people in 1974, only 3% had grown to employ over 20 people by 1982. In addition, only 0.15% grew to over 100 employees during the same period.[1]

- The shortage of indigenous world class export-oriented firms outside the resource-based sector has been identified as a major structural weakness in the provincial economy, linked to the absence of a larger group of mid-size "threshold firms" with some experience in export markets.[2]

What are the obstacles preventing Ontario's small businesses from evolving into medium-sized and then threshold companies? What are the implications of these factors for the long-term health of the provincial economy? The answer involves looking at both the past history of Ontario business and the increasing globalization of business in today's world.

Historically, Ontario's traditionally strong economy has resulted from several factors: strong demand for resources, such as minerals and wood products; availability of inexpensive hydro power allowing the development of successful primary processing of resources into exportable products, such as newsprint, which could compete in foreign markets mainly on price; encouragement of secondary manufacturing by protective tariffs.

A 1987 MITT study estimated the effective tariff protection of the industries most significantly involved in government procurement of manufactured goods in Ontario and compared it to the effective rates charged by the U.S. on the same products. The results, as shown in

[1] Source: MITT Small Business Branch.

[2] Source: *Competing in the New Global Economy*, Report of the Premier's Council, vol. 1 (1988).

Table 4.1, indicate that U.S. rates are consistently much lower.

Table 4.1[3] *Tariffs on Total Government Procurement Expenditures, Ontario, 1984 (est.)*

		Estimated percentage of expenditure constituting U.S. and Canadian tariffs for selected industries*	
SIC Code	**Name of Industry**	**1984 CANADA Duty (est.)**	**1984 U.S. Duty (est.)**
		%	%
286	Printing & Publishing	14.9	0.3
315	Misc. Machinery & Equipment	12.0	3.5
291	Iron & Steel Mills	9.1	2.7
336	Electrical Industrial Equipment	12.9	3.1
321	Aircraft & Aircraft Parts	14.5	0.0
391	Scientific & Professional Equipment	9.7	3.2
378	Industrial Chemicals	10.0	5.2
335	Communications Equipment	13.1	5.8
355	Ready-Mix Concrete	12.5	0.9
338	Electric Wire & Cable	13.1	3.1
309	Misc. Metal Fabricating	13.9	2.3
302	Fab. Structural Metal	12.8	2.3
379	Misc. Chemical Industries	12.7	1.4
374	Pharmaceuticals & Medicines	11.0	1.4
304	Metal Stamp., Press. & Coating	13.7	2.3
318	Office & Store Machinery	5.6	3.6
339	Misc. Electrical Products	13.9	3.6
165	Plastic Fabricating (NES)	15.1	1.4
354	Concrete Products	11.3	0.9
326	Railroad Rolling Stock	14.5	6.5
327	Shipbuilding & Repair	19.0	1.9
301	Boiler & Plate Works	13.0	2.3
	Average Duty:	**12.7**	**2.6**

*industries which in total accounted for 57% of government procurement expenditures.

As the world economy changes, many developing countries are now able to produce resource commodity products more cheaply than Canada; in some cases, they are also closer to the major emerging markets

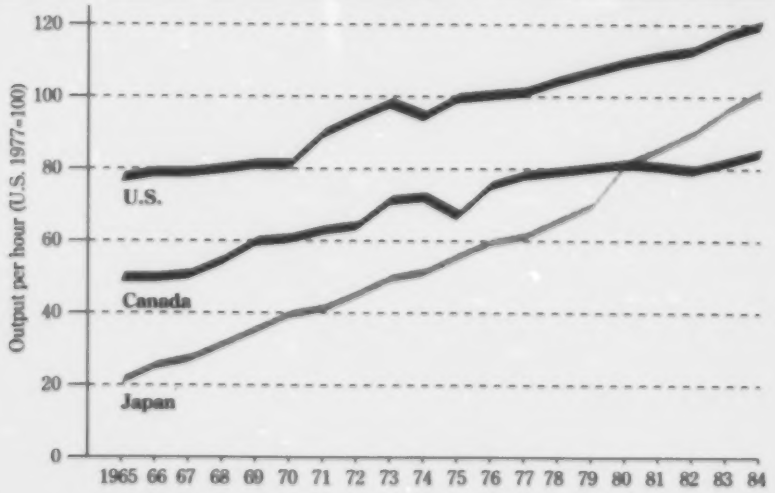
[3] Source: Statistics Canada and MITT.

and able to benefit from reduced shipping costs. Protective trade tariffs have been falling under successive GATT rounds; this process will be accelerated with our major trading partner through the Free Trade Agreement (FTA).

Indigenous companies have also been protected during the last decade by Canada's policy of currency devaluation. The policy has mitigated uncompetitive productivity levels in many major industries.

Many Canadian-owned businesses serve only the domestic market, considering exporting too risky or too much trouble for the expected returns. Lack of export success can also be a manifestation of non-competitive (compared to those of potential export markets) production costs. Chart 4.1 plots productivity, measured in output per hour, in Canada, the U.S. and Japan from 1965 to 1984. Canadian industry may be using both tariff protection (averaging 10-15%) and currency devaluation (some 20%) to make up for a productivity lag of over 25% (1985) relative to the U.S.

Chart 4.1[4] *Output per Hour in Manufacturing, United States, Canada and Japan, 1965-1984*



[4] Source: D.J. Daly & D.C. MacCharles, *Focus on Real Wage Unemployment.* Vancouver: Fraser Institute, 1986.

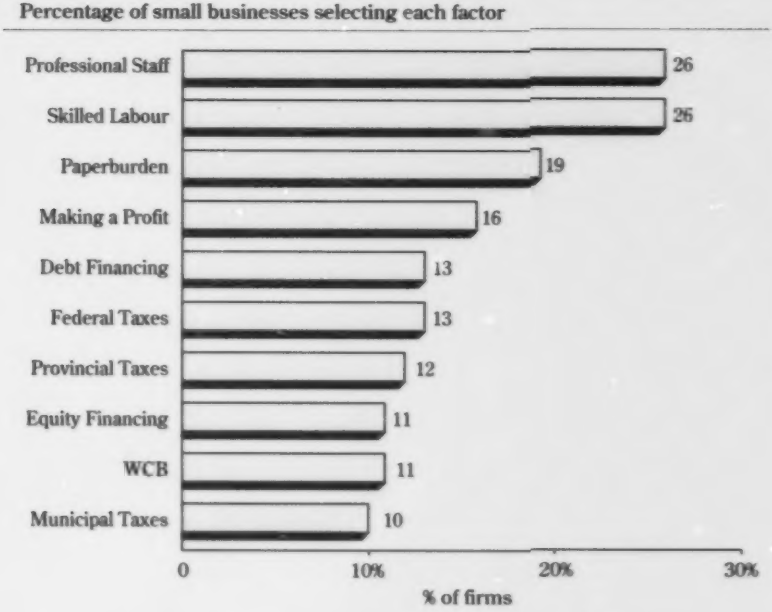
Success in the new economic environment is predicated on ability to compete in an international market and produce products which can command a price premium over commodity-type products: products with high value-added activities of research, design, development, engineering and marketing as well as a significant portion of the actual manufacturing conducted in Canada. Ontario's development of indigenous intellectual and business resources to complement its traditional strengths in natural resources can afford small business the opportunity to be an important source of new ideas and technologies and a nursery for companies capable of growing into internationally-competitive firms.

The Challenge of Growth for Small Businesses

Non-Financial Obstacles

The major obstacles to growth reported by small businesses in Ontario are identified in Chart 4.2. Foremost are 1) a shortage of skilled workers and 2) paperburden caused by the government regulatory environment. The former is unsurprising in the current, tight labour market in parts of Ontario. The latter costs small businesses between 7.5 and 10 hours per month - a significant burden if the personal attention of the owner/entrepreneur is required.

Chart 4.2[5] *Major Problems Rated by Small Businesses in Ontario, 1988*



Financial Constraints

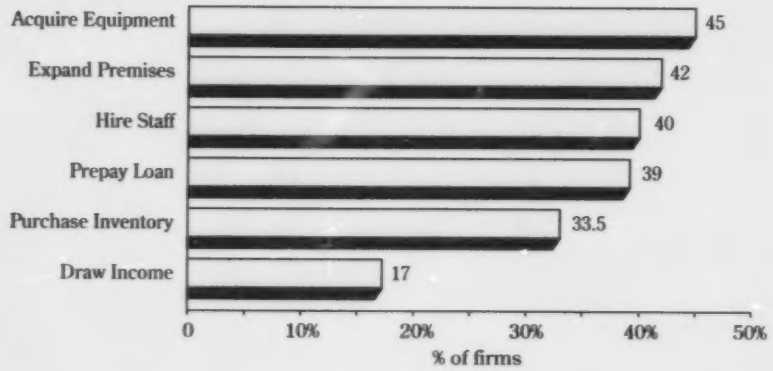
Although financial constraints were not ranked in the top two, in the aggregate, financial constraints are a major obstacle to growth. Research demonstrates that firms with under $5 million in assets experience high debt-equity ratios and often suffer from chronic cash shortages, even though their day-to-day operations may be successful.[6]

The impact of the shortage of capital on small firms is reflected in entrepreneurs' allocations of an additional $25,000 in equity, if it were available. Their responses in 1985, summarized in Chart 4.3, indicate that most would apply new equity to productive assets which would facilitate the firm's expansion.

[5] Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

[6] Source: *Information Base on the Ontario Corporate Sector*, Ontario Development Corporation, 1988.

Chart 4.3[7] *How Additional Equity Would Be Used in New Firms, Ontario, 1985*



Newly-formed businesses, asked a similar question in 1988 about an extra $100,000 investment, were strikingly similar in their replies: "purchase or lease equipment", chosen by 42% of respondents, ranked first, followed by "expand space", selected by 39%. In a three-way tie for third spot were training staff, hiring staff and paying down loans.[8]

Management Constraints

Another major obstacle to growth is the transition in management skills required by a growing firm. The skills demonstrated by the entrepreneur during the start-up of a small business - creativity, flexibility and risk taking - are very different from the planning, organizing, staffing and controlling skills necessary to manage a growing business. It is an exceptional individual who possesses the skills and temperament to excel at both launching and managing a growing concern.

The challenge of delegating tasks, authority and responsibilities to employees is often the point where the new venture runs into trouble. Even if willing to delegate, many proprietors are finding it difficult to find qualified individuals to manage the firm.

[7] Source: ***Entrepreneurship and Small Businesses***, Small Business Advocacy Report No. 8, May 1986.

[8] Source: ***Newly-Formed Small Business in Ontario, 1985-87***, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

Successful Growth Strategies

The above-noted studies focussed on the *obstacles to growth* faced by small firms. Other studies have attempted to identify the *growth strategies* employed by successful entrepreneurial ventures.

Radha Chaganti reached the following conclusions on the growth strategies employed by Canadian firms:

- Small and large business seem to be most profitable during the growth stage when the emphasis is on cost control and efficiency.
- Once a small business has reached the maturity phase, competitive pricing appears to be the only significant company strategy.
- In the declining stage, small businesses tend to spend aggressively on promotion and offer broader product lines in pursuit of relatively slim profits, while large firms pursue productivity and avoid investments.[9]

A recent American survey of successful, high growth entrepreneurial ventures[10] also sought to identify a common set of factors or strategies. The incidence of the success factors, as ranked by the firms themselves, are summarized in Table 4.2.

---

[9] Radha Chaganti, "Small Business Strategies in Different Industry Growth Environments", *Journal of Small Business Management*, vol. 25, no. 3, July 1987.

[10] G.E. Hills and H.P. Welsch, *High Growth Entrepreneurial Ventures: A Content Analysis to Identify Common Strategic Factors* (not yet published).

Table 4.2[11] *Incidence of Success Factors Among 150 Successful Firms, Illinois, 1988*

Factor	%
Product knowledge	96
Knowledge of the market	95
Knowledge of the industry	93
Flexibility, adaptability, responsiveness to change	88
Adaptiveness to change	82
Sticking to given mission	77
Devotion and hard work	71
Distinct competitive advantages	70
Sense of commitment to succeed or to the business	65
Aggressive marketing	65
Adequately plan	62
Responsiveness to customers	61
Clear market niche	59
Quality of product or service	55
Personal selling talent	55
State of the art equipment	54
Differentiated product or service	53
Discovery of unsatisfied needs	49
Adequate financing	39
Good reputation	38
Cost control	23
Reference to planning horizon	23
Integrity/honesty	22
Special attention to employee motivation & productivity	16
Good management and employee respect	11
Attract and retain good people	10
Stated overall strategic goal	7
Employee devotion and spirit	7
Formal business plan	1

The top end of the survey covers four groups of general success factors. The high scores attached to knowledge (of product, market and industry) and to the flexibility/adaptability factors indicate that they are

[11] *Ibid.*

regarded as the two most important elements in success. A third group of responses focussing on hard work and perseverance also scored high. A final group mentioned by over half the respondents contains factors relating to marketing and competition.

Of particular interest is the paradoxical result that over 60% of the respondents said they "adequately plan" while only 1% said they have a "formal business plan". As the researchers reported, "This is a shocking statistic given the emphasis that business school professors, bankers and venture capitalists place on business plans."

Another survey[12] demonstrates that selling to the public sector early in the history of a company is correlated with higher growth and sales and greater export success in later years.

The Growth of Medium-sized and Threshold Firms

While the small business sector of the provincial economy is growing rapidly, medium-sized companies are not. During the period 1974 through 1982, small business units created 62% of the net new jobs in the province; medium-sized firms showed a net reduction in employment of 8%.[13] A recent report by the Ontario Development Corporation concluded that medium-sized firms experience the same financial problems as those endured by small firms, including:

- a consistently weak liquidity position;
- a consistently high debt load;
- relatively low long-term debt with higher debt loads for the most recent year.[14]

Medium-sized firms have enjoyed consistent profitability, but their growth potential is limited by a shortage of capital for expansion. The capital shortage and high debt load also makes them particularly vulnerable if a product fails or the economy takes a downturn.

The Premier's Council Report[15] defines a threshold firm as a medium-sized business with annual sales of $40-400 million in a sector representing both growth opportunities and significant export potential. A threshold firm is poised to become an indigenous, multinational firm

---

[12] J. Doutriaux, *Government Procurement and Research Contracts at Start-Up and Success of Canadian High-Tech Entrepreneurial Firms*, University of Ottawa, April 1988.

[13] Source: *Information Base on the Ontario Corporate Sector*, Ontario Development Corporation, 1988.

[14] *Ibid.*

[15] *Competing in the New Global Economy*, vol. 1 (1988).

and a dominant player in its sector.

The Premier's Council estimates that there are about 40-50 such firms in Ontario today. An earlier study by Steed,[16] using a broader definition, put the number of Ontario threshold companies at 86.

The move from successful threshold company to indigenous multinational is not without danger. In the past, some Ontario firms have foundered at this transition point.

In Canada, in comparison to the U.S., the domestic market is not large and there is not as much industrial R&D being financed by defence contracts - two factors which have traditionally helped nurture threshold firms into multinationals.

Typically, it takes all of the firm's financial and manpower resources to launch a new ground-breaking product: the entrepreneur is forced to "bet the company". If the new product fails or its market fails to materialize, then the future of the company is often at risk. Unlike large multinationals, threshold companies may not have the financial resources to weather a bad product and may be taken over by foreign interests (e.g., Mitel) as a result of the failure of follow-on products in the market.

Successful threshold firms are a favorite target for acquisition by foreign (and even some Canadian) multinationals looking for easy growth - although some studies show that foreign-owned midsized firms are repatriated at a similar rate.[17]

Is Growth Worth It?

Considering the many obstacles to growth, one may ask from a business owner's perspective if growth is necessary or worth the effort.

Growth is a survival and success strategy. By striving for growth, the company will often maximize its chances of survival through the beneficial effects of the intense planning and goalsetting necessary to gain an increasing market share. A growing company can make more effective use of the equity markets. The transition from small to medium-sized business carries with it the potential to penetrate foreign markets, which provides a further opportunity for growth. The difficulties encountered in managing growth should be considered in light of the benefits which accrue to an evolving business.

The idea of growing into a medium-sized or threshold business will appeal to many small business owners. However, many small businesses

---

[16] Steed, *Threshold Firms*, Science Council of Canada (1982).

[17] Source: *Information Base on the Ontario Corporate Sector*, Ontario Development Corporation, 1988.

are not positioned in a high growth sector of the economy; others may not survive to become a threshold firm. The small business community will need to ensure that shifts in government focus do not adversely affect resources which are presently available to it.

If Ontario is successful in developing more threshold firms, we may see a "community effect" where a geographical clustering of spin-off firms develops in specific industries and areas - a "Silicon Valley North". These clusters, charged with entrepreneurial excitement, will further fuel the expansion of new businesses in the community and attract workers, capital and dealmakers to the scene. If these hi tech enclaves can be "aimed" at areas remote from Toronto, they could become an important resource in the geo-economic restructuring of the province.

5 Opportunities for Growth I: Hi Tech

Scope of High Technology in the Workplace

Although a more descriptive term might be *advanced manufacturing technologies*, to contrast with the *traditional manufacturing technologies* presently used by most industries, the term "high technology" or "hi tech" generally refers to advanced techniques in design, engineering and production rather than to the revolution in paper, payroll, and inventory handling made possible by the computer.

Use of the term "hi tech" frequently obscures the fact that high technology products can be created with low technology production methods, while low technology goods can be produced with high technology methods.

Hi tech *products* - items at the cutting edge of technology - are characterized by high value added - the innovative thought and planning that goes into their creation. They are in the rapid growth phase of the product life cycle, with potential for high market share, profit margins and export opportunities. Examples include the Spar shuttle manipulator arm and Northern Telecom's digital telephone switches.

High technology production *methods* - the use of advanced automated techniques to manufacture products, whether the products themselves are low tech or hi tech - are referred to as CIM (Computer Integrated Manufacturing) or AMS (Automated Manufacturing Systems).

In Canada, the large multinational firms have usually been the first to adopt these production methods. The unquestioned leaders have been the Ontario auto makers and parts producers. They possess almost 70% of the advanced installations and industrial robots in Canada. Much of their automation thrust has resulted from their ties to their multinational parents.

In general, small and medium-sized enterprises (SMEs) in Ontario have been slower to adopt these new technologies, but SMEs which supply the large auto makers have started to use these techniques through technological diffusion, triggered by the quality and delivery needs of the auto plants they supply. This trend is particularly evident in the growth of Just-in-Time (JIT) production and delivery methods and in electronic interplant communication technologies.

A recent study by Statistics Canada[1] surveyed the overall penetration of new advanced technologies in the Canadian manufacturing sector. The survey encompassed firms which represented 51% of Canadian manufacturing shipments in 1986. It weighted each positive response by the value of 1986 shipments from the firm. Thus, even if only one item in 1986 was produced through the advanced technology, all shipments from the firm during the year were considered to have been so produced. As a result, the survey may overestimate real use.

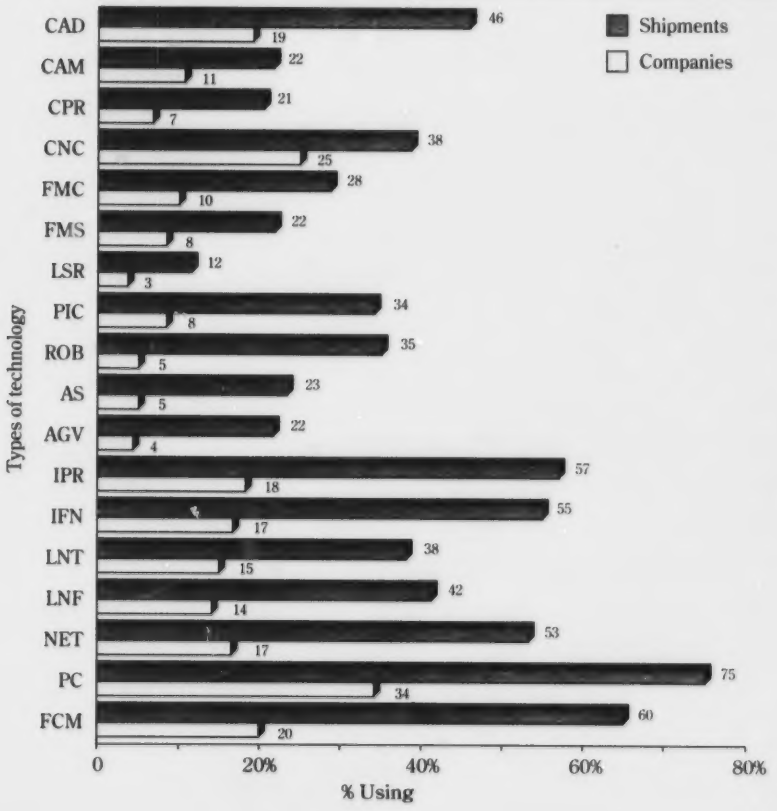
Chart 5.1, a plot of the usage of 18 advanced subtechnologies by the surveyed industries in Ontario, indicates a penetration of under 20% of firms in most areas. The most prevalent technologies are programmable controllers, industrial computers, computer-based sensors and testing, and local area networks. The least-used technologies are laser-based fabrication equipment, automated storage and retrieval systems and automated guided vehicles.

---

[1] Statistics Canada, *Survey of Manufacturing Technology*, June 1987. The advanced production technologies surveyed are:

	Design/Engineering Technology
CAD	computer-aided design, including computer-aided engineering (CAE);
CAM	CAD output to control manufacturing machines (CAD/CAM);
CPR	digital data representation of CAD output used in procurement activities:
	Fabrication/Assembly Technology
CNC	stand alone numerical control machines;
FMC	flexible manufacturing cells;
FMS	flexible manufacturing systems;
LSR	laser-based fabrication equipment;
PIC	pick and place robots;
ROB	complex robots;
	Automated Materials Handling Technology
AS	automated storage and retrieval systems;
AGV	automated guided vehicle system;
	Computer Inspection/Testing Technology
IPR	inspection performed in process;
IFN	inspection performed on the final product;
	Communication/Control Technology
LNT	Local Area Network (LAN) for technical data;
LNF	LAN for factory use;
NET	intercompany network linking plant to suppliers/customers;
PC	programmable controllers;
FCM	industrial computers used for control on the factory floor.

Chart 5.1[2] *Use of Individual Technologies in the Manufacturing Sector, Ontario, 1987*



The Status of Small Business in the High Technology Market

In a 1988 survey of mostly Ontario firms, the Research Centre for Management of New Technology (REMAT) identified 10 technologies, 7 of which correspond to those measured in the Statistics Canada survey. Although the REMAT survey was not as general as the Statistics Canada survey and is dominated by a high proportion of respondent metal

[2] *Ibid.*

working firms, it does permit a comparison of the use of technology in small and large firms(see Chart 5.2).[3]

Not unexpectedly, small business lags large business in almost all areas. The differential is lowest in the area of numerical and computer numerical control machines, where small business has a technology penetration of about 60% of that of large companies. The differential is highest in those technologies which require the integration of several subtechnologies, such as flexible manufacturing systems, automated materials handling and group technology.

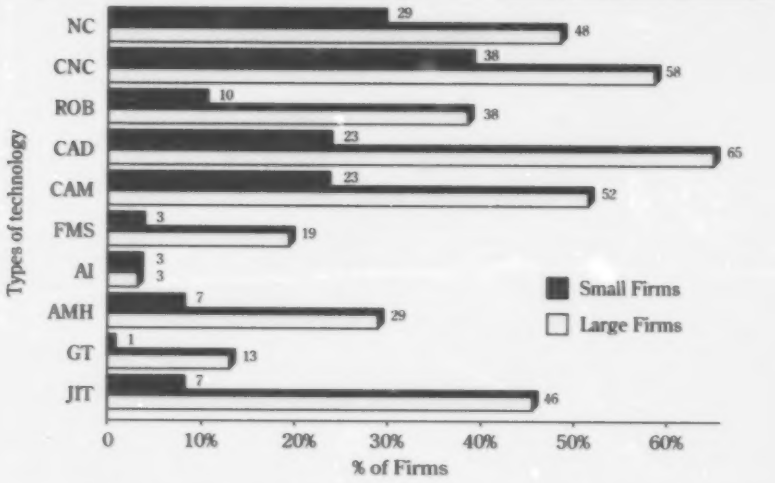
A rather surprising result is the low use (23%) by small business of computer-aided design (CAD), which can be a very cost-effective and time-saving method of product design, and for which the prices of equipment and software have rapidly decreased. In the newly emerging field of artificial intelligence (AI), there has not yet developed any discernible difference between small and large business.

[3] Source: *REMAT First Draft: Annual Technology Survey, 1987-88.* Research Centre for Management of New Technology, Wilfrid Laurier University, April 1988.

REMAT's survey questionnaire was sent to 778 firms, mostly within Southwestern Ontario, and elicited a 14.3% response rate. 45% of the respondents were metal fabricating firms; another 14% were in electrical products, and 10% were machinery firms.

The 7 technologies polled which correspond to the StatsCan survey were: NC, CNC, ROB, CAD, CAM, FMS, and AS/AGV (called AMH in REMAT's survey). The additional 3 technologies polled were: Artificial Intelligence (AI), Group Technology (GT), and Just-in-Time methods (JIT).

Chart 5.2[4] *Use of Advanced Manufacturing Technologies in Small and Large Firms,* Ontario, 1988*

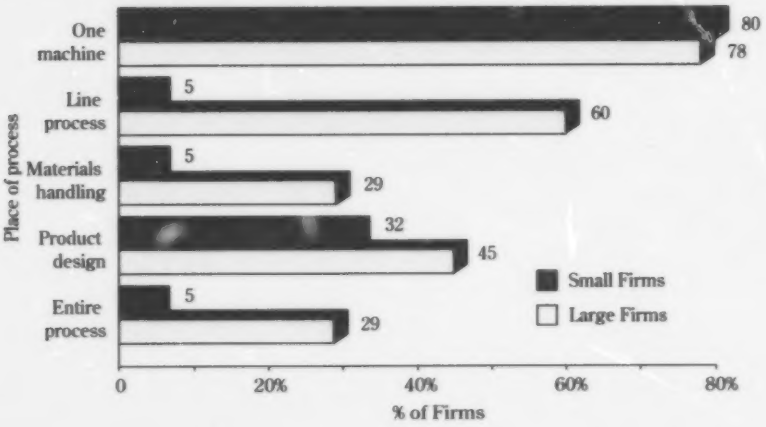


*Small firms are those with fewer than 50 employees. Large firms have more than 250 employees.

Chart 5.3 compares the site of use of advanced technologies in small and large businesses. Small business has concentrated on single machine technology; large business has integrated technologies into line processes, materials handling and the entire manufacturing process. Even large business has made less use of product design technologies (45%) than its ownership of CAD systems (65%) would indicate.

[4] *Ibid.*

Chart 5.3[5] *Site of Automation in Small and Large Firms,* Ontario, 1988*



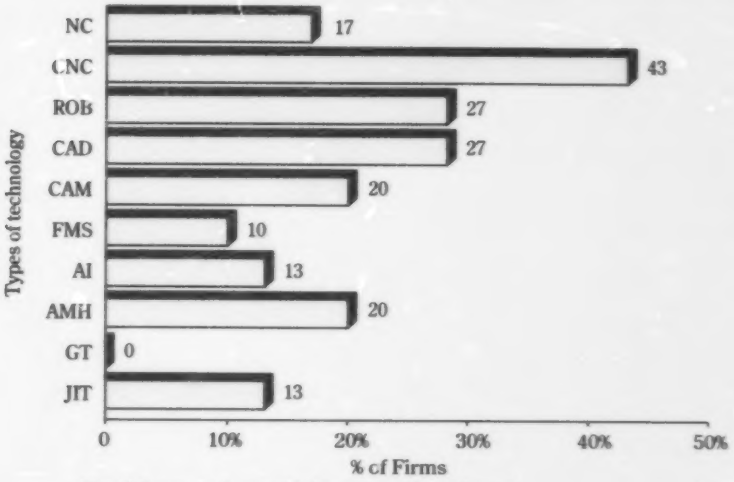
*Small firms are those with fewer than 50 employees. Large firms have more than 250 employees.

The survey asked about technology investment plans over the next 5 years. As Chart 5.4 shows, small firms plan to add more computer numerical control machines, CAD systems and robots. While the integrated technologies will grow to some extent, small business appears to be planning to continue to rely on islands of automation in the near future.

Integrated technologies like flexible manufacturing - one of the cornerstones of advanced manufacturing techniques - enable companies with short production runs to produce multiple products interchangeably on the same line, resulting in economies of scale. The installation of these technologies would enable small firms to compete with larger hard-wired production line plants in foreign countries which depend on long production runs for economies of scale.

[5] *Ibid.*

Chart 5.4[6] *Plans for Future Technology Investment by Small Firms,* Ontario, 1988*



*Small firms are those with fewer than 50 employees.

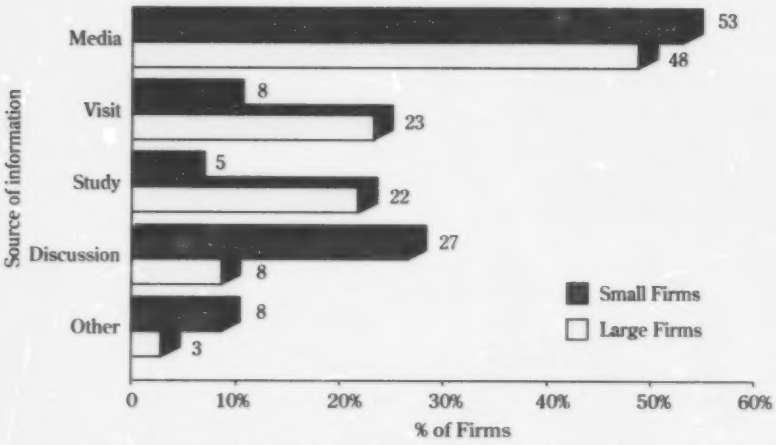
A recent study attempted to determine some of the reasons why Canadian small businesses have been slow to adopt advanced manufacturing technologies.[7] Chart 5.5 examines the most important sources of information on new technology relied on by small and large firms.

[6] *Ibid.*

[7] Source: R.G. Craig & H. Noori, "Recognition and Use of Automation: A Comparison of Small and Large Manufacturers", *Journal of Small Business and Entrepreneurship*, vol. 3, no. 1, 1985.

This study covered two surveys carried out in 1981 and 1984. The small firms surveyed, all from Ontario, had annual sales of $1-$5 million. The large firms, all Canadian, had over 100 employees.

Chart 5.5[8] *Most Important Source of Information on New Technology, Small and Large Firms, Ontario, 1985*



For small firms, the two important sources are the media and discussions with other people. The media remains an important source of information for the larger firms; however, larger firms depend on visits to plants which have already installed these technologies and on their own internal studies. Large business has both better access to primary information about new technologies and the time and personnel resources to investigate and evaluate their usefulness. Similarly, Canadian subsidiaries often utilize the expertise of their parent organizations when they consider automation.

Table 5.1 compares the reasons for automation in both large and small firms. Although the importance of some factors differs between the two sizes of business, the ranking of the factors is much the same, with the major concerns being increasing cost of labour, product quality, and various competitive pressures.

[8] *Ibid.*

Table 5.1[9] *Reasons for Automation in Large and Small Firms, Ontario, 1985*

Reasons for Automation	Mean Score Large Firms	Mean Score Small Firms
Increasing Cost of Labour	4.49	4.07
Concern over Product Quality	4.00	4.03
Concern over Loss of Market Share	3.64	3.83
Declining Employee Productivity	3.56	3.49
Concern over Competition Automating	3.35	3.50
A Belief in Automation by Top Management	3.25	3.51
Lack of Skilled Manpower	3.04	3.39
Employees Unwilling to Perform Certain Jobs	2.86	2.80

5-Point Scale: 1 = Very Unimportant; 2 = Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Although availability of capital may be a major barrier to automation, there are other blocks closer to home: businesses have not found a satisfactory method of evaluating the costs and benefits of increased automation. Costs and benefits can be hard to quantify, especially if the firm has no previous experience with the technology. The value of advanced manufacturing techniques as a strategic tool needs to be evaluated over a longer time frame than is common in the North American business community.

Rather surprisingly, labour objections do not seem to be a large barrier to increased automation. Since much initial automation replaces dangerous or tedious jobs, and since the job market is presently tight, workers apparently do not feel as threatened by automation as perhaps was the case in the past.

A shortage of people trained in the technologies is clearly a barrier, particularly in small firms. It also appears that adoption of technologies is facilitated by an executive who functions as a champion or promoter of the technology; the absence of such a person in a small firm will effectively act as a barrier to automation.

In the 1988 budget, the Ontario Government announced the Technical Personnel Program to encourage small companies (20-200 employees) to hire technical personnel - engineers, technicians, technologists, scientists and computer programmers. Companies who hire technical

[9] *Ibid.*

staff for a 3-year period will be eligible for a series of grants worth 50% of the technical personnel's wages in the first year and 25% in the second year. The goal of the program is to give small businesses without technical staff access to professional help in mastering the complexities of modern technology.

The Importance of Research & Development

One rich sources of new hi tech companies is spin-offs from other companies which conduct research. Entrepreneurs can often exploit plans which they developed while employed at such a research company by leaving to start their own company when their employer chooses not to pursue their ideas.

A 1987 Statistics Canada survey of research spending examines the differences in R&D spending patterns between different-sized firms. [10] Table 5.2 and Chart 5.6 indicate that, of the 1829 companies that performed R&D, an astounding 75% had fewer than 200 employees.

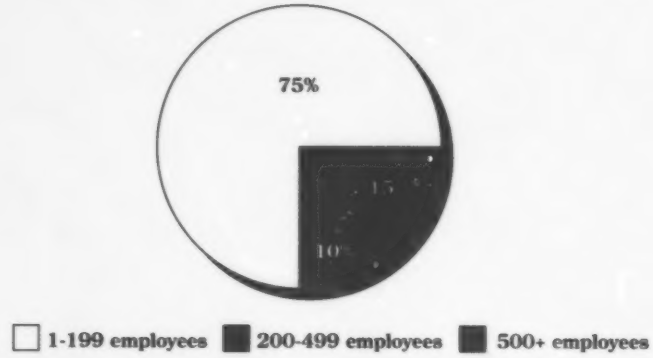
Table 5.2[11] *Companies Performing R&D, by Industry and Employment Size, Canada, 1984*

Industries	Small Business 1-199 Employees	Medium Business 200-499 Employees	Large Business 500+ Employees	Total Performing R & D
	Number of Companies			
Primary	17	10	22	49
Manufacturing	719	147	209	1,075
Services	636	25	44	705
Total All Industries	**1,372**	**182**	**275**	**1,829**

[10] Statistics Canada, *Industrial Research and Development and Company Size*, November 1987.

[11] *Ibid.*

Chart 5.6[12] *Distribution of Companies Performing R&D by Employment Size, Canada, 1984*



Not surprisingly, however, the firms with over 500 employees dominated in terms of money spent, accounting for 76% of the actual dollar expenditures.

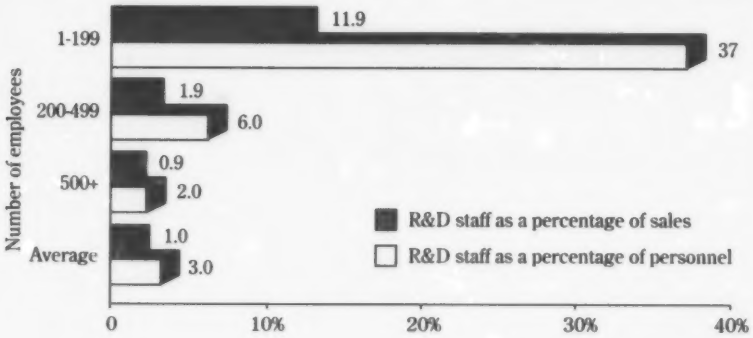
As Chart 5.7 shows, smaller companies spend a higher percentage of their internallygenerated funds on R&D than do larger firms, averaging about 12% for firms with fewer than 200 employees but falling to 0.9% for firms with more than 500 employees. Although some of the effect is due to the higher sales per employee in the larger firms, the high R&D trend in smaller companies is real.

As one would expect, the spending is heaviest in those sectors which have a high level and rapidly evolving technology, such as electronic equipment, business machines and drugs. Small firms in these sectors must spend heavily to stay competitive in the marketplace.

The trend continues for the ratio of R&D personnel to all employees. The smallest manufacturing firms have an average 27% of their employees engaged in R&D while the larger ones have only 3%. R&D clearly uses a relatively larger proportion of resources in smaller companies than in larger firms.

[12] *Ibid.*

Chart 5.7[13] *Average Percentage of Sales and Personnel Allocated to R&D Expenditures and Staff by Companies Performing R&D, by Employment Size, Canada, 1984*



The study also found that smaller firms rely more on R&D funding from government and other companies than do their larger counterparts. Interestingly, the foreign ownership level is only 7% in the under-50-employee firms, while it exceeds 88% in the largest firms - lending support to previous studies which found higher R&D intensity levels in Canadian-controlled firms.

Doutriaux's study of hi tech start-up firms, discussed in more detail in Chapter 6, found that there was a high correlation between first-year R&D funded by public sector contracts and tax credits, and the level of sales during the first 8 years of the company's existence. R&D funding through unsolicited proposals, grants and subsidies was not nearly as effective in predicting later success.

[13] *Ibid.*

6 Opportunities for Growth II: Procurement

Small Business and Government Purchases

Purchases by all levels of government in Canada this year are estimated to reach $80 billion, 16% of the 1987 Gross Domestic Product of about $509 billion.

In 1985, federal government direct purchases amounted to $13.9 billion. The Department of Supply and Services (DSS), the federal government's main instrument of procurement, spent $7.2 billion. A further $1.4 billion was spent by the Department of Public Works (DPW), mainly on construction-related purchases. Other federal departments made direct purchases of $4.6 billion without going through either DSS or DPW.[1]

DSS solicits most of its purchases from a list of eligible Canadian suppliers which contains approximately 10% of the registered businesses in Canada. About 50% of the listed firms are small businesses. In a typical year, small business captures at least 30% of the dollar value of purchases made through DSS. Most government contracts (88% in 1983) are under $2 million, a size which many small businesses can handle.[2]

In 1984, the Ontario public sector purchased nearly $15.6 billion, including purchases made by the Province, crown corporations, municipalities, hospitals and universities. Purchasing is decentralized in the various provincial ministries.

---

[1] Source: *Overview of Canadian Federal Procurement Policies and Practices.* Trade Negotiation Office, August 1986.

[2] Source: *Government Procurement: A Study Team Report to the Task Force on Program Review.* Government of Canada, 1985.

Small business is quite competitive and typically wins almost 70% of Ontario government purchase orders worth some 60% of purchasing expenditure (excluding cars, gas and contracting). About 85% of suppliers sell to a single ministry, providing office equipment and furniture, and business services such as construction, consulting, courier, printing and travel services.[3]

Other provincial and municipal governments also make purchases from Ontario firms. Many government contracts won by larger firms often contain subcontracting elements which are delegated to smaller firms; this practice further increases the amount of government purchases which directly benefit Ontario small businesses.

The relative importance of each level of public sector spending in the Ontario market is shown in Chart 6.1 and the distribution of expenditures by industrial sector in Chart 6.2.

[3] Source: MITT.

Chart 6.1[4] *Distribution of Public Sector Procurement Spending by Level of Government, Ontario, 1983*

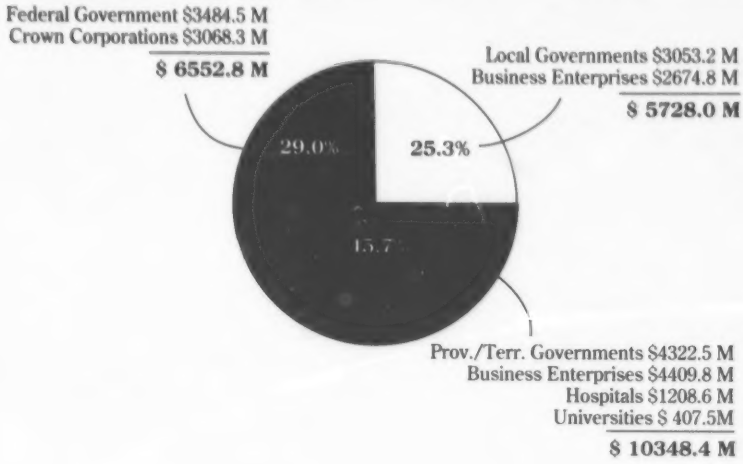
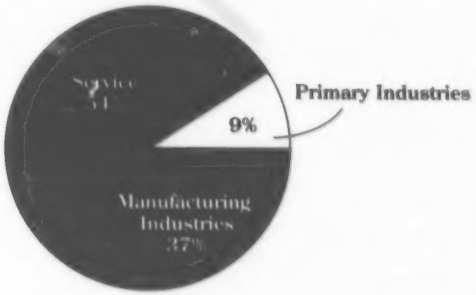


Chart 6.2[5] *Distribution of Public Sector Procurement Spending by Industry, Ontario, 1983*



[4] Source: *The Size and Structure of the Public Sector Market.* Supply and Services Canada, 1983.

[5] *Ibid.*

Government Procurement and the Growth of Start-up Firms

Jerome Doutriaux of the University of Ottawa has published some research on the effects of sales to the public sector by hi tech start-up firms.[6] He undertook a survey of nearly 70 manufacturing firms which started operations between 1965 and 1980. About 40 of these companies are located in Ontario, and over half of these were in the Ottawa region.[7]

Doutriaux tested several hypotheses about the importance of sales to the public sector during the first 8 years of operation by looking for significant positive correlation coefficients within the data.[8] Doutriaux found the following relationships:

- There was a significant correlation in the first year of operation between annual level of sales and level of sales (as a percentage of annual sales) to the public sector, as shown in Table 6.1. The correlation could be due to characteristics common to the firms; Doutriaux hypothesized that government sales allow a firm to grow more rapidly and thus maintain stronger sales in later years.

---

[6] Jerome Doutriaux, *Government Procurement and Research Contracts at Start-up and Success of Canadian High-Tech Entrepreneurial Firms.* University of Ottawa, April 1988.

[7] Other characteristics of the surveyed firms were as follows:

	Government-Oriented Firms	Non-Government-Oriented Firms	Canada	Ontario
Average number of product lines				
Year 1	.87	0.83	2.1	2.1
Year 8	2.43	2.79	7.1	5.6
Average number of service lines				
Year 1	1.00	0.88	1.0	1.0
Year 8	1.33	1.42	1.7	1.7
Number of firms in sample (Year 1)	25	40	68	38
Average age of company (years)			10.6	10.9

[8] A correlation coefficient of 1 indicates perfect correlation, a coefficient of 0 indicates no correlation and a coefficient of -1 indicates an inverse relationship between the factors being measured.

Table 6.1[9] *Correlation of Start-up Factors with Annual Level of Sales, Ontario and Canada, 1988*

Year of Operation	Sales to Public Sector		
	Year 1 Ontario	Year 1 Canada	Year 8 Canada
	Correlation Coefficient		
Year 1	0.14	0.23	0.40
2	0.23	0.25	0.46
3	0.19	0.25	0.41
4	0.34	0.36	0.45
5	0.29	0.32	0.38
6	0.30	0.43	0.47
7	0.40	0.49	0.55
8	0.62	0.50	0.59

[9] Source: Jerome Doutriaux, *Government Procurement and Research Contracts at Start-up and Success of Canadian High-Tech Entrepreneurial Firms.* University of Ottawa, April 1988.

- There was a significant correlation between annual level of sales and absolute level of sales in the first year. Thus the value, not just the proportion, of sales to the government seems important to future success.

- As shown in Table 6.2, there was a significant correlation between relative sales to the public sector and higher exports in years 6, 7 and 8. There was a negative correlation in years 1 and 2. Firms may concentrate on government contracts in the early stages of growth and use this comparative advantage to gain success later in the export market.

Table 6.2[10] *Correlation of Government Orientation with Propensity to Export, Ontario and Canada, 1988*

Percentage Share of Exports in	Sales to Public Sector Year 1 Ontario	Sales to Public Sector Year 1 Canada	Sales to Public Sector Year 8 Ontario	Sales to Public Sector Year 8 Canada
	Correlation Coefficient			
Year 1	-0.35	-0.12	-0.09	0.00
2	-0.34	-0.07	-0.09	0.05
3	-0.19	0.08	-0.02	0.14
4	-0.15	0.15	-0.02	0.18
5	0.11	0.10	0.00	0.09
6	0.07	0.25	0.12	0.16
7	0.20	0.36	0.31	0.29
8	0.20	0.28	0.16	0.21

- Rather surprisingly, as seen in Table 6.3, there is a lack of correlation between sales to government and the number of founders who came from either a government or university environment. Although a number of government employees leave the civil service to become private consultants, their firms apparently seldom evolve into manufacturing firms.

[10] *Ibid.*

Table 6.3[11] *Correlation of Characteristics of Founding Team and Government Sales, Ontario and Canada, 1988*

	Sales in Public Sector				Absolute Level of Sales			
	Year 1		Year 8		Year 1		Year 8	
	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.
	Correlation Coefficient				Correlation Coefficient			
Founders with previous experience in:								
Finance	0.31	0.19	0.22	0.12	0.21	0.15	0.21	0.09
Marketing	0.05	-0.08	0.10	-0.02	0.26	0.37	0.21	0.16
Production	-0.08	-0.15	-0.12	-0.18	0.17	0.00	0.05	-0.26
R & D	0.25	0.35	0.23	0.36	0.11	0.04	0.26	0.42
Government Contracting	0.45	0.41	0.36	0.33	0.16	0.05	0.36	0.32
Previous employers								
100-500 employees	0.07		0.11		0.19		0.32	
Over 500 employees	-0.11		-0.10		-0.14		-0.08	
Government or university	0.00		0.08		-0.14	0.06	0.17	0.38

[11] *Ibid.*

- On the other hand, as shown in Table 6.4, the firms in the study decreased their consulting activities as time went on. Although 55% of the Ontario firms provided services in their first year, only 23% did so in year 8 as manufacturing became the dominant activity.

Table 6.4[12] *Percentage of Sales by Type of Activity/Client, Ontario and Canada, 1988*

Year of Operation	Activity/Client	Canada	Ontario
		%	%
Year 1	Manufacturing Standard Products	20.8	17.5
	Provision of Services	47.0	55.0
	Consumer Products	3.0	1.0
	Industrial Products	62.0	54.0
	Sales to Public Sector	32.0	42.0
Year 8	Manufacturing Standard Products	40.6	37.0
	Provision of Services	20.0	23.0
	Consumer Products	2.4	0.5
	Industrial Products	68.0	62.0
	Sales to Public Sector	30.0	38.0

- There was a significant correlation between the level of sales in years 1 and 8 and founders with previous experience in finance, R&D and government contracting. This is to be expected; a founder's good knowledge of the supply process would assist the firm in submitting unsolicited R&D or supply of goods proposals to government agencies.

- As seen in Table 6.5, government-oriented firms are more likely to exploit technologies and markets similar to those of their founders' former employer than are other firms, who tend to exploit complementary technologies and markets. Doutriaux hypothesizes that government-oriented firms may be more R&D-intensive and less worried about patent infringement at start-up than are non-government-oriented firms.

[12] *Ibid.*

Table 6.5[13] *Technology, Markets and Government Orientation at Start-Up, Ontario and Canada, 1988*

	Government-Oriented Firms	Non-Government-Oriented Firms	Canada	Ontario
	%	%	%	%
Similarity of start-up technology with technology of previous employer				
Similar	56	45	49	57
Complementary	16	27	23	24
Different	28	27	28	19
Similarity of start-up market with market of previous employer				
Similar	52	26	35	34
Complementary	8	28	21	24
Different	40	46	44	42

- While government-oriented firms are more successful, they do not have a larger number of product lines than non-government-oriented firms.

[13] *Ibid.*

- There appear to be no significant differences between government-oriented and non-government-oriented firms at start-up in terms of business plan or organization, according to Table 6.6.

Table 6.6[14] *Organizational Set-Up and Planning by Firms by Orientation, Canada, 1988*

	Government-Oriented Firms	Non-Government-Oriented Firms
	%	%
Business Plan	80	76
- in Year 1	24	14
Marketing Study	72	57
- in Year 1	12	9
Responsibilities formally established		
Marketing	79	86
Finance	79	72
Engineering	84	83
Manufacturing	88	88
R & D	87	83
Personnel	62	55
Responsibilities of founders		
President*	15	10
Technical Manager	13	36
Technical Work	44	20
University or Government**	8	14
Sales	6	10
Total number of firms	25	40
Total number of founders	59	86

* 23% for firms which had some public sector sales in year one and 8% for those who did not.

** 12% for firms which had some public sector sales in year one and 10% for those who did not.

[14] *Ibid.*

Although this study involved hi tech start-up firms, it indicates that government procurement of goods, services and R&D can be valuable to a small firm. The added sales volume and expertise gained through public sector sales enables a young company to advance more effectively along the learning curve and make the productivity enhancements that give it later strength in both domestic and export markets.

Effectiveness of Government Preference Policies

All three levels of government have preference policies which use the procurement process to attain social, political and economic goals. These programs are usually explicit at the federal and provincial government level, and informal or voluntary at the crown corporation and municipal level.

Preference for Canadian Suppliers

At the federal level, Canadian preference is provided both by a priority classification for domestic sources in the lists used in the bid-solicitation system and by a policy which assesses a 10% penalty on the foreign content of a bid. A DSS review of the effectiveness of the preference policy indicated that the benefits have not been substantial.

Ontario has a Canadian Preference Policy (CPP), similar to the federal policy. Studies of the effectiveness of the CPP by MITT found that CPP was not a dominant factor in awarding contracts. In practice, few purchases are altered by CPP participation. The combination of price considerations and the competitiveness of Canadian bidders reduces the necessity to pay a premium for Canadian content.

It is very difficult to verify the veracity or quality of Canadian content claims submitted by companies. At both levels of government, the administrative costs to both business and government may outweigh the benefits of the program to Canadian industry.

Like the federal and provincial governments, Ontario Hydro has a Canadian preference policy which appears to successfully direct purchases to Canadian suppliers. Ontario Hydro does not consider foreign bidders for its contracts unless: (1) there is inadequate domestic competition (<2 companies), (2) the foreign technology is superior or (3) the product cannot be obtained from a Canadian source. As a result, an estimated 80% of purchases in Hydro's major procurement categories are Canadian or from Canadian suppliers. This contrasts with a federal estimate that the domestic content of government procurement in similar categories is only 50% in the public sector.

Other Federal Preference Policies

Another federal policy, called the Procurement Review Mechanism (PRM), attempts to channel the benefits of contracts worth more than $2 million to specific industries and regions. PRM may have some indirect effect on small businesses through the provision of subcontracting opportunities. A study done by the Nielsen Task Force on Program Review indicated that the benefits have not been substantial, although the continuation of PRM in modified form was recommended.

Major weapons systems purchases under the Defense Production Sharing Arrangement (DPSA) have yielded mainly short term build-to-print contracts without the desired technology transfer and investment benefits.

The most effective federal policy appears to be the use of procurement source lists which identify qualified Canadian bidders. Unlike the U.S. government, the federal government does not have a specific set-aside policy for small business; despite this, small business has at least a 30% share of the federal procurement in Canada, compared to 17% for small business in the U.S. At the provincial level, too, small business wins about 60% of the value of Ontario procurement, despite the lack of set-aside provisions.

Other Provincial Preference Policies

The Ontario government uses the Industrial Development Review Process (IDRP), designed to foster business development through the procurement process. Purchases over $250,000 which have the potential for increased employment, import replacement, and product innovation are subject to IDRP.

IDRP was subject to a recent MITT review. The program has been judged a success in some cases, but it has not been widely applied and it has had negligible impact on purchasing decisions in Ontario. This may be because most government purchases are below the review threshold of $250,000. Also, the IDRP process is reactive and is often implemented only after a tender is called. The program might be more effective if used proactively in a strategic approach to government purchasing. This is difficult to accomplish in a decentralized purchasing environment such as Ontario.

Another form of procurement policy which affects Ontario business are interprovincial trade barriers, which provinces use to favour their own provincial suppliers. The federal International Trade Advisory

Committee reported in 1986 that provincial procurement policies restrict interprovincial trade in the following sectors:

- telecommunications equipment;
- heavy electrical equipment;
- urban transportation equipment;
- office equipment and supplies;
- construction material;
- pharmaceutical and hospital supplies.

These are all sectors in which Ontario business would otherwise be very competitive.

7 Opportunities for Growth III: Exporting

Introduction

Merchandise exports accounted for approximately 25% of Canada's Gross Domestic Product in 1987, and approximately 28% of the Ontario economy.[1] While the automotive and natural resources sectors accounted for the largest share of Ontario's export trade, workers and employers in a majority of industries are influenced substantially by trade issues.

Table 7.1[2] *Shares of Employment and Trade with the U.S., 1985*

Ontario manufacturing industries grouped by trade orientation

Trade Group	Number of Industries	Estimated Employment	Trade with U.S. Exports	Trade with U.S. Imports
	%	%	%	%
Two Way Trade	24	36.2	79.4	81.9
Export Oriented	16	13.3	11.4	2.6
Import Competing	18	14.6	2.6	9.3
Low Trade	41	31.0	4.3	4.5
	112	**877,800**	**$50.2 billion**	**$49.8 billion**

[1] Source: Statistics Canada.

[2] Source: Statistics Canada.

Two Way Trade includes industries that have a relatively high export orientation to the U.S. market and simultaneously experience a relatively high degree of competition from U.S. imports. Specifically, exports represent 19%+ of total industry shipments while imports account for 22%+ of apparent provincial consumption.

Export Oriented includes industries that have a relatively high export orientation to the U.S. market but face a relatively low degree of competition from U.S. imports. Specifically, exports account for 19%+ of total industry shipments while imports account for <22% of apparent provincial consumption.

Import Competing includes industries that have a relatively low export orientation to the U.S. market but experience a relatively high degree of competition from U.S. imports. Specifically, exports account for <19% of total industry shipments while imports account for 22%+ of the apparent provincial market.

Low Trade includes industries where relatively little trade takes place between Ontario and the U.S. Specifically, exports represent <19% of total industry shipments while imports account for <22% of the apparent provincial market.

The small business community is not traditionally perceived as a major source of exports or international trade. Nationally, companies with fewer than 100 employees or less than $2 million in sales account for about 8% of direct exports, according to Statistics Canada. However, when sales of components and services to exporters are taken into account, small businesses account for about 29% of indirect exports - roughly the same as the total small business contribution to the national economy.[3]

Export behaviour reported during a recent Canadian Federation of Independent Business survey of some 3,500 Canadian small and medium enterprises (SMEs) is given in Table 7.2.

Table 7.2[4] *Exporting Behaviour of Small and Medium Enterprises, Canada, 1987*

	General	U.S.	Other Foreign
	% Exporting		
SME (Canada)	22	28	11
SME (Ontario)	34	35	10
SME (2 yrs or less)	32	23	—
SME (10 yrs +)	38	29	—

Factors Affecting International Trade

The Canada-U.S. Free Trade Agreement (FTA) is one element in an economic environment that has changed significantly over the past ten years. The FTA has focussed public attention on the competitiveness of Canadian businesses relative to their U.S. counterparts. For small businesses interested in international trade, the issue of market competitiveness encompasses a number of important factors.

Current Exchange Rates. Exchange rates may be the most critical factor. There is no conclusive evidence of the relative importance for small business exports of factors such as price, specialization, service or technological advantage; but the relative strength of the Canadian dollar may play a vital role in the competitiveness of small business exporters. Much of Ontario's competitive advantage in recent years derives from the

[3] Source: BRIE Small Business Office, 1985.

[4] Source: Canadian Federation of Independent Business, *Market Orientation of Small and Medium Firms*, March 1987.
The firms surveyed all had fewer than 500 employees.

valuation of the Canadian dollar below $0.80 U.S.

Relative Interest Rates. As the chapter on Finance details, small businesses tend to be more dependent than larger corporations on short-term debt financing. Canadian interest rates have tended to run between 1.5% and 3.0% higher than comparable U.S. rates in recent years.

Comparative Tax Climate. Small business tax rates in Canada compare favorably with those in some neighbouring U.S. jurisdictions, even including sales and payroll taxes. A Price Waterhouse study of tax reform and its impact on Canadian manufacturing found that both pre-reform and post-reform tax burdens (combined federal and local statutory rates) were lower in Canada than in many areas of the U.S. The findings are presented in Table 7.3.

Table 7.3[5] *Comparative Tax Burdens, Canada & U.S., Manufacturing Sector, 1988*

Combined federal/local statutory rates

	Combined Tax Rates	
	Pre-Reform*	Post-Reform**
Canada:		
Ontario	44.5%	37.5%
Quebec	35.5%	28.5%
Alberta	35.0%	32.0%
United States:		
Connecticut	52.21%	41.59%
New York	51.40%	39.94%
Ohio	51.22%	40.02%
California	51.18%	40.30%
Massachusetts	51.13%	40.27%
Tennessee	49.24%	37.96%
Michigan	47.27%	35.55%

* Using U.S. federal top marginal rate of 46%.

** Using U.S. federal top marginal rate of 34%.

[5] Source: Price Waterhouse, *Tax Reform and Its Impact on Canadian Manufacturing.* IBM 5th CIM Executive Conference and Technical Seminar, February 1988.

Small manufacturing businesses in Ontario receive a preferential tax rate on their first $200,000 of income. This preference will be slightly diminished post-reform (22% combined rate compared to 20% pre-reform).

Relative tax rates become more important when one considers that a majority of present exporters focus on regional U.S. markets. According to a recent survey by *Small Business Magazine*, 56% of current exporters and 73% of prospective exporters would focus on serving particular U.S. regional markets (especially border states), rather than serving a national market under the FTA.[6]

Level of Market Concentration & Specialization. Some trade experts suggest that the FTA may lead to an increase in the rate of business mergers and acquisitions, as large and medium-sized companies seek to rationalize and achieve economies of scale. A reduction in the number of firms would indirectly affect small businesses by curtailing their market for goods and services.

However, since the competitive position of small businesses in many markets is directly related to the degree of market concentration in particular industries, the continued closing or rationalization of branch plants may lead to new opportunities for specialized Canadian entrepreneurs.

Productivity and Access to Improved Technologies. U.S. manufacturers continue to enjoy a continuing advantage in overall productivity, historically caused by smaller economies of scale in Canadian branch plants, longer Canadian supply/distribution lines and relatively higher Canadian levels of employee compensation in some sectors.

As Chapter 5 indicates, the Ontario government is committed to helping small businesses seek out and adopt new or improved product and process technologies to enhance their relative competitiveness in areas of cost and flexible response to demand.

Relative Access to Financing. Despite frequent criticisms made of the Canadian banking system and its treatment of small and growing businesses, Canadian small businesses historically have experienced a much higher reliance on external bank financing than their American counterparts.

This can be explained by several factors, especially:

- tighter treatment of Canadian business debtors than the U.S. Chapter XI bankruptcy laws, which permit insolvent companies up to 6 months to reorganize;

- more restricted access than U.S. small and medium-sized companies to external equity financing, particularly since the U.S. financial deregulation measures of the late 1970s.

---

[6] *Small Business Magazine*, vol. 7, no. 8, July/August 1988.

As the FTA provides U.S.-owned financial institutions with greater access to Canadian markets (subject to existing regulatory constraints on Canadian banks and trust companies), more competition for medium-sized business accounts may result in major population centres.

Access to United States Government Procurement Contracts. The Canadian government estimates that U.S. government procurement of goods and services exceeds $700 billion (Cdn) annually, broken down as indicated below:

U.S. federal government expenditures		41.2%
• Military purchases	37.0%	
• Non-military purchases	4.2%	
U.S. state government expenditures		33.4%
U.S. municipal government expenditures		25.4%

According to estimates by the Canadian government, in 1984 Canadian products accounted for approximately 0.5% of total U.S. defence expenditures (valued at $1.4 billion Cdn), and 0.2% of U.S. non-military government procurement. Canadian suppliers have not been very successful so far in penetrating either the civilian or military U.S. procurement market.

The FTA will lower the limit for national treatment in procurement to $25,000 US from the existing $171,000 limit negotiated under GATT. While the lower threshold will allow some smaller companies to bid on U.S. government procurement contracts, the GATT code remains unchanged in other respects and forms an annex to the FTA, and foreign competition bans in many U.S. government procurement policies remain in place.

Small Business Response to the FTA

Member surveys of the Canadian Federation of Independent Business, the largest representative national small business organization, indicate 38% support for the FTA, with 7% opposed, 25% indicating no impact on their businesses and 31% with no opinion. Although the percentages did not vary greatly between provinces, Ontario, Nova Scotia and PEI showed the lowest support for free trade while British Columbia and Alberta showed the greatest support.[7]

Recently, *Small Business Magazine* commissioned a survey of 361 owner/managers of small to medium-sized businesses. The survey

[7] Source: Canadian Federation of Independent Business, *Submission to the Ontario Standing Committee on Finance and Economic Affairs.* March 1988.

found that, while 64% of respondents support the FTA, only 45% believe that the agreement will be good for their particular industry. 11% think that it will be bad overall, 39% think that it will have little or no impact on balance, and the remainder have no opinion.[8]

A Laventhol and Horwath study of small business found that support for free trade increased with the size of the small business. For firms with under 5 employees, the number of companies which believe free trade will be beneficial is equal to the number which do not. However, of firms with 20-100 employees, more than twice as many believe it will benefit them as not.

Table 7.4[9] *Business Owners' Opinions on Benefit of Free Trade to Their Company by Size of Firm, Ontario, 1988*

Opinion	Number of employees		
	0-4	5-19	20-99
	%		
Strongly agree	18	16	22
Agree	18	30	28
Disagree	11	7	6
Strongly disagree	24	18	17
No opinion/answer	31	29	28

Small Business Changes under the FTA

The *Small Business Magazine* survey indicates that more than 25% of owners and managers of small to medium-sized businesses expect to make changes in the way their firms operate as a result of the FTA. Almost one-third expect more competition from U.S. companies; 17% anticipate acquiring all or part of a U.S. company to complement their existing business; and 12% anticipate that all or part of their company could be sold to a U.S. firm.

[8] *Small Business Magazine*, vol. 7, no. 8, July/August 1988.

[9] Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

Table 7.5[10] *How Small Businesses Expect to Change under FTA, Canada, 1988*

Change way company is operated	
Expect to make changes	26.0 %
Do not expect to make changes	66.5 %
Uncertain/no comment	7.5 %
Competition from U.S. companies in Canadian market	
Expect more competition	32.8%
Expect less competition	1.9%
Expect no change	59.8%
Uncertain/no comment	5.5%
Purchase of all/part of your firm by U.S. firm	
Expect such purchase	11.6%
Do not expect such purchase	77.9%
Already U.S.-owned	1.4%
Uncertain/no comment	9.1%
Purchase of all/part of U.S. firm by your firm	
Expect such purchase	17.0%
Do not expect such purchase	73.8%
Uncertain/no comment	9.2%

One common change small businesses expect under the FTA is to increase U.S. exports. Of 353 companies surveyed at random from Dun & Bradstreet lists of owner-managed firms with sales between $250,000 and $25 million, 21.8% already sell to the U.S. - a figure expected to grow to 37% under the FTA. About 20% of the exporting firms have U.S. production and service facilities.[11]

[10] Source: *Small Business Magazine*, vol. 7, no. 8, July/August 1988.
[11] *Ibid.*

8 Financing Small Business

Constraints to Small Business Growth

Undercapitalization, both at the start-up stage and later in a small venture's development, appears to be a major factor in the slow growth of small businesses. The fastest-growing Ontario companies begin with an average investment of over $350,000 - more than ten times the start-up capital for the average new firm.[1]

Small businesses require financial assistance at virtually every stage of their growth and development. At each stage the need for funding is based on a different set of circumstances.

Money is often needed prior to the start-up of a new enterprise for research and development (R&D) or marketing studies. Seed capital can be required for lab work, construction of prototypes, feasibility studies, and so on. This work is often undertaken with the entrepreneur's own funds or perhaps with a bank loan secured by the entrepreneur's personal assets. An unknown innovator, with no track record and limited personal resources, can find the initial financial obstacles difficult to overcome.

Later, during the start-up stage, additional capital is required to launch the venture on a sound footing. Revenues build slowly, and while day-to-day operations may be profitable, the debt accumulated during the R&D and start-up phase usually puts considerable strain on the finances of the new business. This stage of a company's evolution is typified by volatility, high short-term debt and a shallow equity base. The break-even point, including debt servicing, is often years in the future.

In the growth and accelerated growth stages, capital is needed to expand and improve plant, equipment and personnel, and to enable the venture to evolve to medium size. Yet significant financial obstacles to growth remain. In the early growth stage, there is a great need for capital - preferably equity capital. Firms at this stage of development - those having under $5 million in assets - are often burdened with a high debt-equity ratio, making growth difficult.

The difficulties continue as the venture evolves to a medium-sized business. Most of these firms continue to suffer from a weak equity base. In many ways, the general weakness of the medium-sized business

---

[1] Source: *Ontario's Fast-Growth Companies*, Small Business Advocacy Report No. 18, April 1987. Prepared by Decision Marketing Research Ltd.

sector of our economy and the shortage of firms poised to expand into international markets - so-called threshold firms - are rooted in the financial constraints on smaller ventures.

Debt Financing

There are limitations to the use of debt, especially short-term debt, as an instrument to fund growth. Debt first of all strains the liquidity position of a struggling business, reducing its flexibility to deal with unforeseen circumstances and to respond to opportunities and downturns. Secondly, short-term debt can inhibit the attraction of further capital, stalling growth. Thirdly, the "unknowns" in a business start-up and the perception of high risk frequently force entrepreneurs to provide personal guarantees for their firm's loans, requiring higher total collateral coverage than larger ventures do.

Still, debt remains an important source of small business financing. A recent study found that 36% of newly-formed small businesses in Ontario got their start-up financing from banks and financial institutions, and 63% of them relied on banks for additional financing. In addition, almost 60% of those surveyed stated that they would be willing to go or go further into debt if they needed more capital.[2]

Bank Financing

The role of Canada's chartered banks in providing financing to small business is both underestimated and misunderstood. The April 1986 issue of *Canadian Banker* magazine reviewed the chartered banks' involvement in small business financing, and found the following:

- 80% of loans to small businesses are made through the chartered banks.
- Banks deliver more than 90% of government-backed loans to small business, most of these through the Small Businesses Loans Act (SBLA).
- 40% of loans extended under the SBLA were provided to finance the start-up of new ventures.

---

[2] Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

- Government-backed loans represent only about 10% of the banks' small business loans portfolio, indicating that banks play a major role even without government guarantees.
- The outstanding loans to small businesses in 1985 totalled $15.9 billion, a figure even more significant when one considers that this is the sum total of loans of $500,000 or less.
- Just over 86% of the small businesses surveyed in 1985 identified chartered banks as their primary source of funding and financial services.[3]

Federal Government Debt Financing Programs

SMALL BUSINESSES LOANS ACT (SBLA)

The *Small Businesses Loans Act* (SBLA) was introduced in January, 1961, to encourage private sector lenders to make term loans to small businesses. It is administered by Industry, Science and Technology Canada. Approved lenders are compensated for 85% of any losses sustained through defaults on business improvement loans made under the *Act*.

The 1987 SBLA *Annual Report* recounted that, of approximately 7,800 firms (representing about one third of SBLA users), 39% were new start-ups, 8% were in their first year of operation, 8% were in their second year and 6% were in their third year. In other words, 61% of loan activity went to firms in their first three years of existence - businesses which are often denied conventional loans.

Table 8.1 presents SBLA lending activity for the most recent fiscal year. Figures for the country as a whole are provided for comparative purposes. SBLA lending to Ontario small businesses accounted for almost one-third of the total activity.

[3] Source: Mary Jane Grant, "Update: Small business and the banks", ***Canadian Banker*** (magazine of the Canadian Bankers' Association), April 1986.

Table 8.1[4] *SBLA Lending by Type of Business Enterprise, Ontario and Canada, 1987-88*

Type of Business	Ontario		Canada		Ontario as a % of Canada	
	No.	$	No.	$	No.	$
Communications	60	1,973,103	179	5,466,386	34%	36%
Construction	475	14,865,559	1,570	49,034,370	30%	30%
Fishing	1	16,000	218	7,084,404	–	–
Manufacturing	651	26,423,815	1,821	66,338,975	36%	40%
Retail Trade	1,367	62,303,790	4,260	163,611,554	32%	38%
Business Services	2,237	90,609,799	7,860	288,653,049	28%	31%
Transportation	355	14,402,189	2,136	85,382,396	17%	17%
Wholesale Trade	179	6,135,937	596	18,154,782	30%	34%
Total	**5,325**	**216,730,192**	**18,640**	**683,725,916**	**29%**	**32%**

FEDERAL BUSINESS DEVELOPMENT BANK (FBDB)

The Federal Business Development Bank (FBDB) provides its clients - Canadian businesses, with special emphasis on small and medium-sized firms - with loans, loan guarantees, venture capital, management counselling and information, and training and planning services. In 1987, the FBDB experienced record levels of lending, introduced new services and achieved modest profits.

It is interesting to note that, during fiscal 1988, the FBDB had a penetration rate (number of FBDB customers as a percentage of all businesses in the district) in Northern Ontario of 7%, as opposed to a 1% penetration in Toronto. Apparently the Toronto market is being adequately served by the banking industry, while the Northern Ontario entrepreneur has a greater need for FBDB services.

Tables 8.2 and 8.3 show FBDB term lending activities in Ontario through the most recent fiscal year.

[4] Source: Ministry of Small Business & Tourism, 1988.

Table 8.2[5] *Federal Business Development Bank Term Lending Activities in Ontario Region, 1985-88, by District*

	Southwestern District			Eastern District			Northern District			Metropolitan District			TOTAL ONTARIO		
	1986	1987	1988	1986	1987	1988	1986	1987	1988	1986	1987	1988	1986	1987	1988
Lending Activities															
No. of Loans	309	378	289	190	359	368	324	339	272	271	257	323	1,094	1,433	1,252
Amount Authorized ($ millions)	45	61	47	36	78	79	46	40	35	62	75	68	189	254	229
Portfolio (As at Year End)															
No. of Customers	1,357	1,215	1,149	879	858	923	1,153	1,107	1,067	1,030	933	925	4,419	4,113	4,064
Amount Outstanding ($ millions)	110	129	142	89	112	153	78	94	99	99	133	159	376	468	553
Job Creation Impacts of Annual Activities															
Annual No. of New Jobs to be Created by Loan Recipients	545	860	660	440	590	605	385	400	445	690	1,015	630	2,060	2,865	2,340

[5]Source: FBDB Ontario Regional Office, June 1988.

Table 8.3[6] *Federal Business Development Bank Term Lending Activities in Ontario Region, 1987-88, by Industry*

Industry Group	No. of Loans	$ Amount
	% Distribution	
Manufacturing	16	18
Tourism	28	29
Retail Trade	19	14
Commercial & Industrial Real Estate	15	20
Construction	6	4
Services (excl. Tourism)	5	5
Other	11	10
Total	**100**	**100**

The FBDB's Export Receivables Financing Program was launched in February 1987 as a pilot project. Its purpose was to fill the "gap" left by the banking industry and existing federal and provincial programs. It is open to any small or medium-sized business which exports goods or services. Firms can obtain an FBDB-guaranteed line of credit from financial institutions covering 60% to 90% of the value of export receivables. The receivables secure the line of credit.

The credit criteria for the program are the same as for term loans. There are no minimum or maximum limits. A 1% annual fee is levied upon acceptance of the application and an additional 2% is charged upon use of the credit, on top of the interest charged by the financial institution.

[6] *Ibid.*

Table 8.4[7] *Federal Business Development Bank Export Receivables Financing Program*

Summary of activity as at April 30, 1988

	Ontario		Canada	
	Number	$(000)	Number	$(000)
Enquiries	241		853	
Applications	30		73	
Authorizations	18	2,770	49	10,745
Declined	7		13	
Pending	5	1,115	11	3,115

EXPORT DEVELOPMENT CORPORATION (EDC)

The Export Development Corporation (EDC) is a federal Crown Corporation which functions as Canada's official export credit agency. As such, its mandate is to support the efforts of Canadian exporters to expand their sales. It provides a range of services which reduce the risk of export activity, including:

- export credit insurance, which protects a firm for 90% of losses incurred should a foreign buyer default on a payment or go bankrupt;
- performance-related insurance, which covers a business for losses resulting from a call by a foreign customer on a performance-related bond, through no fault of the exporter;
- foreign investment insurance, which protects a firm's out of country investment against adverse political risks;
- export financing, which provides up to 85% of the foreign buyer's agreed price (the foreign buyer pays EDC directly).

Small and medium-sized businesses represent 82% of the Canadian businesses supported by EDC.

Table 8.5 shows the value of exports covered by EDC in fiscal 1987. EDC provided coverage for $1.089 billion worth of Ontario exports, more than for any other region and virtually one third of the country's total export value. Just under one third of Ontario exports insured under the program originated from firms with fewer than 100 employees. A

[7] *Ibid.*

breakdown of exports by industrial sector indicates that services, the mainstay of small businesses, accounted for the largest share of provincial exports.

Table 8.5[8] *Exports Covered by EDC Insurance Program, by Region and Size of Firm, 1986-87*

Number of Employees	REGION					
	Atlantic	Quebec	Ontario	Prairies	B.C.	Canada
	($ millions)					
1 - 4	-	8.4	23.6	12.0	42.3	86.3
5 - 19	1.5	23.3	106.8	27.2	14.9	173.7
20 - 99	6.8	102.0	213.2	253.0	99.5	674.5
Total 1-99	**8.3**	**133.7**	**343.6**	**292.2**	**156.7**	**934.5**
100 - 499	95.5	104.3	169.1	36.8	332.1	737.8
500 & Over	48.7	71.0	357.5	0.5	268.6	746.3
Not Specified	4.3	554.3	218.9	92.5	14.2	884.2
Total	**156.8**	**863.3**	**1089.1**	**422.0**	**771.6**	**3302.8**

Provincial Government Debt Financing Programs

THE DEVELOPMENT CORPORATIONS

Debt financing assistance to small businesses is coordinated on behalf of the Ontario Government by three of The Development Corporations: Ontario Development Corporation (ODC), Eastern Ontario Development Corporation (EODC) and Northern Ontario Development Corporation (NODC).

The Development Corporations were founded to encourage and assist in the development and diversification of industry in Ontario. These goals are accomplished by:

- offering lending and investment for business start-ups, expansions and high risk ventures;
- providing advisory assistance to business;
- stimulating investment on a regional basis;
- supervising and administering major development loans;

[8] Source: Export Development Corporation.

- implementing and administering financial assistance programs on behalf of other agencies;
- implementing and administering federal-provincial regional development agreements;
- operating two industrial parks;
- managing Ontario investments.

Foremost among The Development Corporation's initiatives are those which provide financial assistance to the province's small businesses by way of term loans, interest subsidies, guarantees, revolving lines of credit or demand loans (used for financing export receivables).

In extending these services to small businesses, The Development Corporations assume risk levels above those of private sector financial institutions and the FBDB, particularly in underdeveloped regions of the province. The element of risk is reflected in the loan losses of the Corporations compared with those of the chartered banks and the FBDB. Loan losses for The Development Corporations amount to 3-4% of total activity. This compares with just over 1% for the chartered banks and just over 2% for the FBDB. Despite the higher risks and loan losses, only 10% of the loan enquiries made each year are actually approved.

In 1987, The Development Corporations lent over $129 million to businesses across the province, with an average investment of nearly $250,000. 15% of the loans were for export support, 26% for tourist activities and 59% for industry. On a per capita basis, for every $1 lent in Southern Ontario, $1.74 was lent in the East and $6.30 in the North.[9]

New Ventures

The Government of Ontario introduced the New Ventures Program in September, 1986 to address the needs of new business owners through a program of loan guarantees to finance start-ups. The program is the only one in Ontario which provides working capital with no collateral requirement to all types of start-up businesses.

- Over 5,500 firms have been assisted since launch (over 3,400 in the first complete year of operation).

---

[9] Source: The Development Corporations, *1987 Annual Report.*

- The participation rate of 28.1% in Northern and Eastern Ontario was higher than projected.
- The 28% participation of women was higher than expected.
- An average of 2.8 jobs were created by each responding firm - well above the projection of 1.5 incremental jobs per firm per year.
- Sales averaged $67,516 over the first six month period (446 businesses earned over $30 million in sales).
- Each business borrowed an average of $15,983 in addition to the New Ventures loan.
- The average owner's equity position was $26,682 as of October 1987.
- The average original investment by owners was $19,825, well above the investment required to match the New Ventures loan.
- Over $2.4 million was invested in the 43 respondent new ventures in Northern Ontario.
- Almost $4.2 million was invested in the 83 respondent firms in Eastern Ontario.
- Over $18.2 million was invested in the 320 respondent firms in Southern Ontario.
- The service sector, accounting for over half of the New Ventures loans issued, created the majority (56%) of new full-time jobs, and created more than its share (54.8%) of part time jobs.[10]

As of December, 1987, there were 61 loans in default. In November, 1987, New Ventures staff examined these failures and identified several trends, although the small size of the sample precludes drawing definitive conclusions about the program. Some patterns do, however, stand out:

- Small businesses based in Northern Ontario were more than twice as likely to default on loans as those in Southern or Eastern Ontario.
- Loans to Northern ventures accounted for some 25% of the defaults although the region made up only 8.2% of all loans issued.

The following tables present additional data on the New Ventures program.

---

[10] Source: Ministry of Industry, Trade & Technology and Ontario Development Corporation, *New Ventures Preliminary Results*, February 1988. The report is based on 446 business reviews returned by program participants by October, 1987.

Table 8.6[11] *Distribution of New Ventures Loans by Lender as at December 1987*

	%
CIBC	29.1
Royal Bank	28.2
Toronto Dominion	17.2
Bank of Nova Scotia	14.1
Bank of Montreal	8.2
National Trust	2.7
Other*	0.5
Total	**100.0**

*0.5% of New Ventures loans have been issued by the National Bank, the credit unions and the caisses populaires.

Table 8.7[12] *Distribution of New Ventures Loans by Region as at December 1987*

	%
North	8.2
East	19.9
South	71.9
Total	**100.0**

Table 8.8[13] *Distribution of New Ventures Loans by Sector as at December 1987*

	%
Service	51.3
Trade	36.7
Manufacturing	12.0
Total	**100.0**

[11] *Ibid.*
[12] *Ibid.*
[13] *Ibid.*

Equity Financing

Equity investment presents an attractive alternative to debt financing as a means of launching or expanding a small business.

It strengthens, rather than weakens, the firm's financial situation. An infusion of equity capital, in the form of minority shareholdings, often enables a small business venture to attract more of the same. In addition, it can so improve a company's finances that access to conventional bank loans becomes easier and debt less onerous to carry. In short, equity capital can facilitate healthy growth without overextending the business's financial resources.

Despite the obvious benefits of equity capital investment, many entrepreneurs find it difficult to accept an equity partner or partners. An entrepreneur's need to control the environment is often so strong that he or she is unable to "let others in" to join the venture, even though they only desire minority shareholder status. An even greater problem is that many proprietors who do want equity participation in their firms either do not know how to attract it or are unsuccessful at doing so.

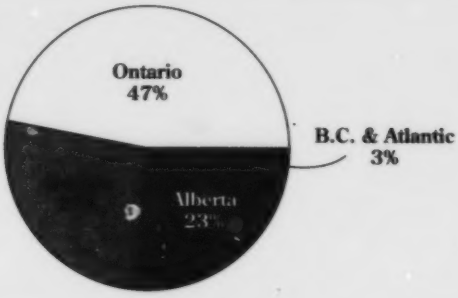
Venture Capital

The Canadian venture capital industry is proportionately smaller than its U.S. counterpart and, at this stage, less sophisticated. In 1986, the State of Massachusetts had $525 of venture capital under management per capita, New York State had $300 per capita, and California had $286. Ontario had only $81 per capita of venture capital under management.[14]

While the per capita value of venture capital funds under professional management in Ontario is far below that of several major U.S. states, Ontario has by far the largest portion of venture funds among the Canadian provinces. As of December, 1986, a total of $710 million was managed by Ontario venture capital groups, accounting for 47% of the national industry total.

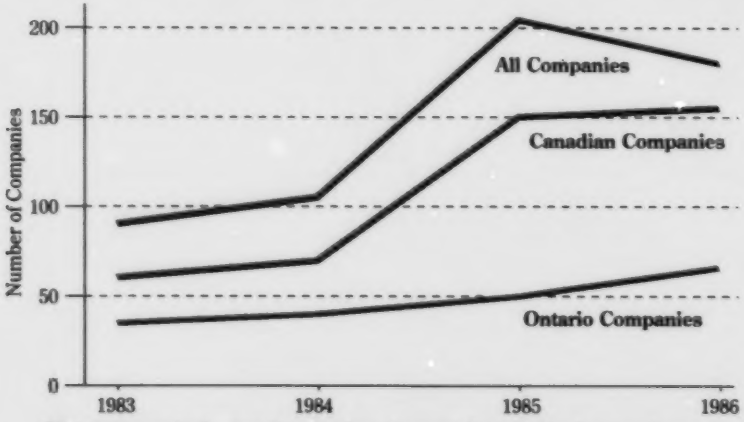
[14] Source: MITT Small Business Branch.

Chart 8.1[15] *Regional Distribution of Capital Under Management for Venture Investing as of December 1986, Canada*



Although investment in Ontario companies did not rise as spectacularly in 1984 as it did in other companies, investment in Ontario companies has been growing faster than investment in Canadian companies since 1985.

Chart 8.2[16] *Total Venture Investments in Canadian and Ontario Small and Medium Enterprises, 1982-1986*



The venture industry is growing, in part due to the increasing

[15] Source: Venture Economics Canada Ltd., 1987.
[16] *Ibid.*

The venture industry is growing, in part due to the increasing investment activity of pension funds. Ontario's pension funds are the largest source of available capital for the industry. Increasingly, pension fund managers are choosing venture investments in small to medium-sized enterprises as a component of a balanced investment portfolio. Such investments have higher risks attached, but also have superior growth potential.

Together, Ontario public and private sector pension funds committed $165 million to private venture capital funds from 1981 to 1986. While this may appear to be a significant investment, it represents only about 0.2% of total pension fund assets.[18] The participation of pension funds in venture investment must continue to grow in order to strengthen the size and sophistication of the province's venture capital industry.

Venture capital funds usually take minority positions of 10% to 45%, enabling the entrepreneur to remain in control of the enterprise. These investments are made for the anticipated capital gain when the minority interests are sold. Generally, venture capital funds prefer to invest when a strong management team is in place and the business has established a good track record.

Venture capital funds prefer to finance a business's growth, rather than fund the seed or start-up stages, so that they will be in a position to divest themselves of their holdings in as little as 2 to 3 years after investment. When capital is invested at an earlier stage, funds can be tied up for as long as 5 to 10 years before a favourable return can be enjoyed. This propensity can make venture capital inaccessible to many small firms.

While the number of companies financed by venture capitalists and the total dollars invested have both been increasing over the past 5 years, there has been a sharp drop-off of funding to seed and early stage firms, as shown in Table 8.9. In 1984, seed and start-up firms accounted for 40% of the companies financed and fully 50% of the dollars flowed. By 1986, this segment's share had dwindled to 18% of companies and merely 6% of funds. Early stage investments also tend to be smaller, as seen in Table 8.10.

---

[17] Source: ***Venture Investing and Prudence***, Venture Economics Canada Ltd., 1987.

Table 8.9[18] *Distribution of Companies Venture Financed and Venture Amounts Invested by Stage, Ontario, 1983-1986*

Company's Stage	1986		1985		1984		1983	
	#	$	#	$	#	$	#	$
	%							
Seed/Start-up	18	6	38	26	40	50	11	3
Other Early	8	3	0	2	7	11	14	11
Expansion	38	36	30	42	43	16	26	22
LBO	9	8	16	20	5	21	29	54
Turnaround	6	13	14	11	2	3	6	8
Other	17	35	2	0	2	0	11	3
Unknown	5	0	0	0	0	0	3	0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Number of Companies Financed	**66**		**50**		**42**		**35**	
Total Amount Invested ($ millions)		**80**		**65**		**38**		**37**

Table 8.10[19] *Average Venture Amount Invested in Ontario Companies by Stage, 1983-1986*

Company's Stage	1986	1985	1984	1983
	($ millions)			
Seed/Start-up	0.42	0.89	1.12	0.25
Other Early	0.40	-	-	-
Expansion	1.16	1.80	0.33	0.89
LBO	1.00	1.63	-	2.00
Turnaround	2.50	1.00	1.00	1.50
Other	2.55	-	-	0.25
Overall Average	**1.21**	**1.30**	**0.90**	**1.06**

[18] Source: Venture Economics Canada Ltd., 1987.
[19] *Ibid.*

Despite the attention given to hi tech companies, the consumer-related and industrial automation industries have maintained their combined share of venture capital dollars at a steady 35-37% since 1983, as shown in Table 8.11. The average placements by industry are shown in Table 8.12

Table 8.11[20] *Distribution of Companies Venture Financed and Venture Amounts Invested by Industry, Ontario, 1983-1986*

Industry	1986		1985		1984		1983	
	#	$	#	$	#	$	#	$
				%				
Communications	9	7	3	2	12	3	16	9
Computer Related	26	17	19	28	18	13	19	13
Other Electronics	5	19	9	19	9	6	10	22
Genetic Engineering	2	0	6	4	6	10	0	0
Medical/Health Related	5	7	11	9	3	3	3	3
Energy Related	0	0	1	0	0	0	0	0
Consumer Related	17	20	13	23	15	23	13	34
Industrial Products	10	17	16	12	9	13	16	3
Industrial Automation	7	1	6	2	3	6	0	0
All Other	19	11	17	2	24	23	23	16
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Number of Companies Financed	**58**		**70**		**33**		**31**	
Total Amount Invested ($ Millions)		**70**		**57**		**31**		**32**

[20] *Ibid.*

Table 8.12[21] *Average Venture Amount Invested in Ontario Companies by Industry, 1983-1986*

Industry	1986	1985	1984	1983
	($ millions)			
Communications	1.00	0.50	0.25	0.60
Computer Related	0.80	1.23	0.67	0.67
Other Electronics	4.33	1.83	0.67	2.33
Genetic Engineering	0.00	0.50	1.50	-
Medical/Health Related	1.67	0.63	1.00	1.00
Energy Related	-	-	-	-
Consumer Related	1.40	1.44	1.40	2.75
Industrial Products	2.00	0.64	1.33	0.20
Industrial Automation	0.25	0.25	2.00	-
All Other	0.73	0.08	0.88	0.71
Overall Average	**1.21**	**0.81**	**0.94**	**1.03**

Federal Government Equity Financing Programs

FBDB

The FBDB, besides lending activities, offers venture capital investment to its clients. A full 50% of the FBDB's venture capital investments are made to companies in the early or startup stages of development. There has been a considerable increase in FBDB venture capital activity: 32 investments were made in fiscal 1988 versus 19 in fiscal 1987. Ontario's share of this activity is shown in Table 8.13.

[21] *Ibid.*

Table 8.13[22] *Federal Business Development Bank Venture Capital Investment, Ontario and Canada, 1988*

	Ontario	Canada
Activity 1987-88		
No. of investments	9	32
Amount committed and/or invested ($ millions)	$5.4	$22.5
Portfolio as at March 1988		
No. of investees	15	65
Amount committed and/or invested ($ millions)	$9.4	$62

Provincial Government Equity Financing Programs

SMALL BUSINESS DEVELOPMENT CORPORATIONS (SBDC) PROGRAM

Ontario's Small Business Development Corporations (SBDC) program was created to encourage equity funding of the start-up and growth stages of the province's small firms. The program, administered by the Ministry of Revenue, features significant benefits for the investors who form the SBDCs.

Since the SBDC program was introduced in July of 1979, over 2,000 investments have been made which channelled about $400 million into approximately 900 of the province's small businesses. A summary of SBDC activity for the first half of fiscal year 1988/89, as well as for the program to date, is presented in Table 8.14.

[22] Source: FBDB Ontario Regional Office, June 1988.

Table 8.14[23] *SBDC Activity Summary*

Activity	Fiscal Year to September 30/88	Program to Date
Number of SBDC's registered (including registrations subsequently revoked)	60	1069
Number of SBDC's revoked/surrendered	40	452
Number of grant applications approved	450	18,431
Dollar amount of grants approved	$3,892,474	$144,187,235
Number of tax credit applications approved	19	454
Dollar amount of tax credits approved	$312,250	$5,580,799
Dollar amount of grants recovered through revocation/capital redemption	$2,299,535	$10,398,571
Dollar amount of tax credits recovered through revocation/capital redemption	$112,736	$618,748
Number of investments in small businesses	83	2087
Dollar amount of investment in small businesses	$14,985,180	$408,736,346
Dollar amount of SBDC issued capital (net)	$16,055,028	$360,026,869
Number of individual small businesses newly invested in	41	921

The flexible nature of the program, its focus on equity capital participation and the range of support services it offers combine to make the SBDC program a unique contribution toward solving small business chronic cash shortages. Despite these advantages, the SBDC program is not a panacea. Problems with the current program include:

- a pattern of "one shot" investing;
- restrictions on eligibility for firms requiring seed capital and start-up capital, who must engage in an eligible activity within twelve months of the SBDC investment. For some start-ups, this requirement is too stringent;
- waning popularity.

Employee Share Ownership Plan (ESOP)

To encourage Ontario employees of small and medium-sized corporations to invest in the businesses they work for, and to provide small businesses with an additional source of investment capital, the Province of Ontario established the Employee Share Ownership Plan (ESOP) to assist employees to purchase shares of their employers. The ESOP program,

[23] Source: Ontario Ministry of Revenue.

administered by the Ministry of Revenue, gives employees a grant of 15% of the purchase price of newly-issued shares of their employer corporations, to a maximum of $300 per year. There are also grants to assist employees and employers to implement the plan.

To be eligible, employer corporations must be incorporated in Canada, must pay 25% or more of their wages and salaries to employees of permanent establishments in Ontario, and must have either gross revenue or assets (including the gross revenue and assets of associated corporations) of $50 million or less.

Eligible employees are those who have been employed by the company for at least six months prior to purchasing the shares. They must also work a minimum of 14 hours per week. They must be Ontario residents on the date of the share purchase and on the last day of the previous calendar year. Their shareholdings and those of any related individuals must be less than 10% of the issued shares of any class of the employer's capital stock.

Computerized Ontario Investment Network (COIN)

The Computerized Ontario Investment Network (COIN) is an independent, nonprofit corporation operated by the Ontario Chamber of Commerce through its 160 offices throughout the province. The Ministry of Industry, Trade and Technology has committed funds for promotion, advertising and translation services related to the program. COIN also receives support from private sector sponsors, including Bell Canada, CP Trucks, Dofasco, Price Waterhouse, The Royal Bank of Canada and Xerox. Its purpose is to help bring together investors and entrepreneurs seeking capital.

In contrast to the matching services provided by the FBDB and the SBDC program, COIN is a large-scale, community based service, which is also made available to international investors through Government of Ontario trade offices abroad.

The Network facilitates confidential introductions between investors and entrepreneurs. By the end of August 1988, COIN had made possible 640 introductions resulting in almost $8 million in new investment in Ontario's small businesses. In addition, COIN has created a new pool of investment capital totalling some $80 million. The average investment sought and offered is between $250,000 and $300,000.

Innovation Ontario Corporation (IOC)

A crown corporation, Innovation Ontario seeks to reduce the risks of starting new, technology-based businesses in the province. IOC, a sister corporation of The Development Corporations, invests in small-to-medium-sized companies which focus their efforts on technology-based products, processes and services. It also provides a range of technical, business and information services to Ontario inventors and entrepreneurs.

IOC is an integral part of the ongoing partnership between the province's private and public sectors - a partnership of major importance in the field of high technology, where extremely high risks are borne by small, entrepreneurial firms.

IOC also seeks to fill the seed capital "gap" in venture capital supply. Growth-stage financing takes the form of an equity investment which will be repaid or divested according to terms negotiated between IOC and the client.

From its start-up in June 1986 to September 30, 1988, Innovation Ontario received 760 detailed business proposals. In all, 104 projects (with a maximum investment of $250,000 in any one project) were approved. The total government investment of $15.3 million levered a further $31 million in private sector funds.

Also, 66 clients whose projects were declined took advantage of IOC's staff review service to identify key concerns with their proposals. A further 40 clients were referred to other financial institutions or investors.

9 Raising Awareness and Cultivating Entrepreneurs

Instilling the Entrepreneurial Spirit

Perhaps the most important role of government is to set the framework within which our social, cultural, political and economic development takes place. In the Canadian federal system, provincial governments shoulder a major responsibility for shaping our environment.

Provincial legislation governing employment standards, labour relations and business practices, for instance, establishes the legal framework within which we earn our livings and run our businesses. Provincial jurisdiction in such matters as education, health, training and skills development largely determines the quality of our labour force. Specific government initiatives - supporting high technology, promoting the development of economically depressed regions, aiding small business - have a measurable impact on our economy.

Provincial governments also contribute to the public environment in other, less quantifiable ways. They play a considerable role in instilling values and a sense of public spirit and in creating a community of interest. The Government of Ontario has contributed significantly to the entrepreneurial spirit of the province as Ontarians increasingly recognize the importance of entrepreneurship.

The April 1986 Speech from the Throne stated that the provincial government,

> to ensure [Ontario's] place as a world class society of the twenty-first century[,] must provide excellence and relevance in education and training, particularly in shaping a generation capable of innovating and seizing opportunities.

In April 1987, the Speech from the Throne emphasized that

> Ontario's future economic growth largely depends on the entrepreneurial spirit of its people. At the heart of that spirit is the small business community, which has accounted for the majority of new jobs created over the last decade.

In November 1987, the Speech from the Throne highlighted the importance of this spirit to Ontario's future:

> We must equip our children with the skills, knowledge, creativity

and entrepreneurial spirit they will need to meet the challenges of the twenty-first century.

The Role of Education

In light of the contributions made by small business to job creation, some see entrepreneurial activities as a panacea for unemployment. Those who hold this view maintain that it is in society's interest to educate people to "become" entrepreneurs, by which they mean "starters of small businesses".

Others take a broader view. Recognizing the value of entrepreneurial *thinking* to large, small, and even non-commercial environments, this group believes that providing entrepreneurial education is in society's best interest because innovation, initiative and creativity are fostered.

Can entrepreneurship be taught? How extensively is it being taught now? How should it be taught? This section focuses on these aspects of the role of education in instilling the entrepreneurial spirit.

Can Entrepreneurship be Taught?

As recently as 4 or 5 years ago, the attitude that entrepreneurship could not be taught prevailed. This view was probably rooted in the belief that entrepreneurs are "different" - that they are "born, not made." Also underlying this perception was a recognition of the unique nature of entrepreneurial activity and of the difficulties involved in teaching subject material like "creativity," "innovation," and "seizing opportunities."

The Canadian Foundation for Economic Education (CFEE) began examining the issue about 4 years ago. Having established entrepreneurship as a priority, the CFEE set as its first task the publishing of a primer on the subject. In addition to this booklet, the Foundation held the first of what has become an annual conference for educators on entrepreneurship. The CFEE concluded that entrepreneurship can and should be taught, not as a "quick fix" for unemployment, but rather for the broader applications of entrepreneurial principles.[1]

A Philadelphia-based project found that entrepreneurship education had a positive effect on inner-city minority youth's selfimage and on reducing the student drop-out rate. Students also saw greater value in continuing their education because of the entrepreneurial studies

[1] Source: Gary Rabbior, Executive Director, Canadian Foundation for Economic Education, June 1988.

component of their curriculum.[2]

How Extensively is Entrepreneurship Being Taught Now?

THE SECONDARY SCHOOL SYSTEM

Over the last few years, some teachers have been teaching entrepreneurship without the benefit of a specific curriculum guideline in their business studies classes. In the 1986 Speech from the Throne, the Government of Ontario announced measures to introduce entrepreneurship studies formally into the province's schools.

Through the "Bridges to the World of Work" initiative, the Ministry of Education developed two courses, introduced to the high school curriculum in the autumn of 1988. The courses are offered to students in grades 11 and 12 and are augmented by up to 4 credits in co-operative education outside the classroom. The optional co-operative courses enable students to learn more about entrepreneurship and small business through direct exposure to entrepreneurs and from direct experience in representative businesses.

The goal of these courses is to provide students with opportunities to:

- assess their personal interest in and aptitude for entrepreneurial activities;
- understand that entrepreneurial attitudes and aptitudes can be developed over time;
- appreciate that the principles of entrepreneurship have lifelong applications in their day-to-day personal and working lives;
- identify the rewards and challenges of initiative and achievement in a wide range of commercial and non-commercial activities;
- think and act in a creative manner;
- develop self-confidence and apply their initiative, achievements, and creativity to personal, school, business and community service opportunities;
- understand the role of entrepreneurship and innovation in our society and assess the effects of them on the quality and level of economic activity in Canada; and
- examine a wide range of career choices.

---

[2] Source: Gary Rabbior, *The Development of Entrepreneurial Education in Ontario.* 1988.

The objectives for the course material stress the broad view of entrepreneurship and its applicability to day-to-day life.

The Post-Secondary Environment

In 1987, 41 courses in entrepreneurship were offered at 23 Ontario colleges and universities, representing an increase of only 1 institution and 1 course since 1980.[3] Comparative data on entrepreneurship education in Ontario and other provinces are summarized in Table 9.1.

Table 9.1[4] *Courses in Entrepreneurship in Canada, 1980 & 1987*

Province	Institutions		Courses	
	1980	1987	1980	1987
Alberta	7	10	10	13
British Columbia	11	11	17	19
Manitoba	1	1	1	1
New Brunswick	3	3	6	6
Newfoundland	1	1	1	1
Nova Scotia	4	6	7	8
Ontario	22	23	40	41
P.E.I.	1	1	1	1
Quebec	7	9	23	50
Saskatchewan	2	2	2	3
Total	**59**	**67**	**108**	**143**

Courses in entrepreneurship have traditionally been offered by university business and engineering schools. During the 1970s, several universities experimented with concentrating courses into an interrelated entrepreneurship program. By the mid-1980s, there were 10 such concentrations or program equivalents in North America, out of 530 institutions offering 1 or more courses in small business or entrepreneurship.[5] The introduction of entrepreneurship programs reflects the emerging status of the field as a distinct discipline of study.

---

[3] Source: *Select Survey of Small Business Management and Entrepreneurial Activities in Canada, 1980 and 1987.* W.H. Ellis, Faculty of Management, McGill University.

[4] *Ibid.*

[5] Source: W. Ed McMullan & Wayne A. Long, *Entrepreneurship Education in the Nineties*, University of Calgary 1988.

Curriculum and Delivery: What Should Be Taught and How?

It is clear that entrepreneurial education should focus on the unique problems faced by entrepreneurs. These problems change as the business changes, adapts to its environment and grows - problems experienced when a venture is launched are often very different from those experienced during the growth stages, for example.

Entrepreneurial studies are most commonly taught in the business or professional schools. This pedagogical mode is subject to a number of limitations, including:

- a focus on producing middle managers, accountants, and staff specialists to meet demand;
- differentiation of subject materials along the departmental lines found in large organizations.[6]

Few ventures begin with a functionally-differentiated organizational structure; many never evolve to the stage where such specialization is required. The specializations which form the basic MBA program - accounting, finance, marketing, personnel, and general management - are often irrelevant to the entrepreneurial curriculum. A more innovative, responsive, and flexible approach is required.

Research by CFEE and studies undertaken in the United States indicate that course design and delivery of entrepreneurship studies must be very different from that of conventional courses. Entrepreneurial education replaces rote learning with "approach to life" learning. This fundamental difference makes considerable demands on course instructors, whether at the high school, college, or university level. Once a curriculum has been developed, teachers have to acquire a new approach for presenting it - in short, they need to employ the principles of entrepreneurship in teaching the new material.

One study recommended subject differentiation by stage of business development rather than by functional specialization, suggesting a program structured around a series of strategic development challenges - opportunity identification, market feasibility analysis, new venture finance, expansion strategies.[7]

---

[6] *Ibid.*
[7] *Ibid.*

An effective entrepreneurship program, according to 25 identified criteria, should:

1. not focus on "right answers";
2. be highly participatory - activity-based with a "hands-on" focus;
3. be goal/achievement oriented;
4. allow for short-term accomplishments;
5. focus on challenges to the status quo;
6. have a community integration focus;
7. utilize a variety of approaches and teaching styles;
8. have elements that surprise the student and present the "unexpected";
9. present familiar information in unfamiliar contexts;
10. be easily amended and augmented by individual teachers;
11. provide a broad focus for entrepreneurial ventures and initiatives - not only small business start-ups;
12. be fun and exciting;
13. enable frequent and unanticipated feedback;
14. entail approaches and activities that seek to build self-confidence in the student;
15. enable students to apply their knowledge and skill to a particular endeavour;
16. build to a potential "launch point" for a new business;
17. enable and encourage group/team activities;
18. alert students to common pitfalls and reasons for failed initiatives;
19. place a heavy emphasis on "opportunities" - how to identify and evaluate them;
20. expect the teacher to be entrepreneurial;
21. link entrepreneurship to innovation;
22. focus on the consideration and examination of "disequilibrium" as opposed to "equilibrium";
23. provide guidance on the design of a conducive learning environment, as traditional learning environments will be inappropriate;
24. utilize case studies varying as to the nature of the entrepreneur, type of initiative and degree of success;
25. address behavioural dimensions of learning as opposed to just content.[8]

---

[8] Source: Gary Rabbior, *Elements of a Successful Entrepreneur/Economics Education Program*, March 1988.

Provincial Programs in Support of Entrepreneurship

Small businesses in Ontario need assistance in two key areas: access to financing and advisory assistance. Provincial programs addressing the financial needs of small business were reviewed earlier. The Government of Ontario has also mounted several initiatives to improve the availability and quality of advisory expertise. These efforts complement the formal education initiatives. Here is a brief summary of the programs currently offered in support of entrepreneurship in Ontario.

Entrepreneur '88

On May 30-31, 1988, in Toronto, the Ministry of Industry, Trade and Technology (MITT) and the Premier's Council co-sponsored Entrepreneur '88, a forum on entrepreneurship and small business. The objectives of the conference were to showcase and celebrate Ontario entrepreneurs and to inspire aspiring entrepreneurs.

Over 5,000 people, representing a wide cross-section of the public, participated in the conference: entrepreneurs, business owners, venture capitalists, bankers, management consultants, accountants, broadcasters, students, and teachers. The conference featured workshops on topics such as "Packaging Your Business to Attract Investors," "Getting and Keeping the Right Employees for Your Growing Business," and "Strategic Partnering with Big Business and Government". 163 exhibitors from all over the province represented Ontario manufacturing and tradeable service firms with annual sales of over $500,000.

Publications

MITT has a wide selection of publications designed to help small business owners and entrepreneurs, covering topics such as recordkeeping, business planning and marketing.

Starting a Small Business in Ontario is of particular interest to would-be entrepreneurs. The book contains information on taxation, labour regulations, business registration and incorporation, government assistance, licensing, and other advice on business start-ups. Over 100,000 copies of the book (now in its 13th printing) are distributed annually.

On a quarterly basis, MITT publishes the *Small Business Ontario* newsletter. Containing stories of successful entrepreneurs, information about government assistance to business and locations and dates of seminars, the newsletter is distributed free to over 45,000 Ontario business owners and aspiring entrepreneurs.

Seminars

Seminars on marketing, starting a business, franchising, profit sharing, business ownership for women and product costing are held by MITT in over 200 Ontario communities each year. The seminars are usually 3 hours long and are held in the evening for the convenience of aspiring entrepreneurs who hold day jobs. Resource people such as lawyers, accountants, and bankers often attend the seminars as presenters.

MITT also gives a seminar on starting a small business specifically aimed at workers who are facing plant closures.

Entrepreneur Clubs

MITT, in concert with the Ministry of Skills Development, has provided grants of $1,000 each to help start entrepreneur clubs in 15 of the province's universities. The clubs are usually established by second-year business students and charge annual membership fees of $5 to $10. The clubs feature a range of activities with emphasis on prominent guest speakers, who discuss a spectrum of small business and entrepreneurial issues.

Start Up

Through its two Start Up programs, Youth Venture Capital and Student Venture Capital, the Ministry of Skills Development offers interest-free loans to young people with good business ideas. The programs are operated in co-operation with The Royal Bank of Canada and the Ontario Chamber of Commerce through local chambers of commerce. MITT provides seminars and other support for the programs through local field offices.

TVOntario

TVOntario, a crown corporation, is the educational television service for the province. In January 1986, it broadcast an 8-episode series, "Frontrunners," which focused on 8 entrepreneurs identified as role models for small business owners. Developed in consultation with MITT, which also made a major financial commitment, the series aimed to increase interest in small business and to encourage entrepreneurship as an alternative to employment. The series has been repeated several times, most recently in the fall of 1988.

TVOntario's Part-time Learning Division introduced a complementary course in small business management which was recognized for credit by several community colleges. Since 1986, a total of 2,421 viewers

paid the $79 fee to register for the course.[9]

This innovative linking of television and course materials fulfills two objectives: increasing public awareness of entrepreneurship, and improving the skills, knowledge and information available to small business owners.

TVOntario plans to rebroadcast the series in February of 1989 and refer viewers to 17 colleges which would offer the related course. The focus this time, as before, is on the building blocks of small business success, including how to develop an effective business plan to attract financing.

Locally-Based Services

The Ontario Government supports the development and introduction of locally-based services for entrepreneurs. Four of these initiatives are outlined below.

1. Community Small Business Centres

The province has provided an average of $630,000 in assistance to each of these small business incubators since the first one was introduced in 1985. The 7 centres, located in Thunder Bay, London, Waterloo Region, Brantford, City of York, Cornwall, and Kanata, provide new ventures founded by local residents with a variety of support services, including low-cost operating space, common services and on-site advice. The centres also provide the general community with an outreach program of general service. The centres receive funding, usually applied against various capital costs, from local cosponsors. Up to May 31, 1988, the Centres had assisted 191 new firms to create 674 new jobs, at a cost per job of $5,780.

2. Self-Help Centres

Self-Help Centres are centrally located community resource centres. Each is staffed by an entry-level consultant to deliver advisory assistance to local entrepreneurs, and each provides a library of business materials and a quiet work environment for planning or problem solving. Since the concept was developed by MITT in 1985-86, a total of 13 Self-Help operations have been opened, costing the province an average of $35,000

[9] Of the total registrants, 739 were from Metro Toronto, 642 from Central Ontario, 377 from Southwestern Ontario and 192 from Northern Ontario. There were also 73 out of province registrations, including 58 from Quebec.

annually. The centres process 3,000 enquiries each year and in 1987-88 directly assisted in the launch of some 500 new ventures.

3. University Small Business Consulting Centres

The Government of Ontario supports a total of 15 centres on university campuses throughout the province. The centres provide low-cost consulting services to new and established small businesses by employing the talents of senior business students led by a faculty coordinator. The centres are financed by an average provincial subsidy of $24,000 per unit and by the revenues generated by the consulting service. In the fiscal year ending March 31, 1988, the centres directly assisted in the start-up of some 350 new businesses which are expected to create about 2,700 new jobs.

4. Centres of Entrepreneurship

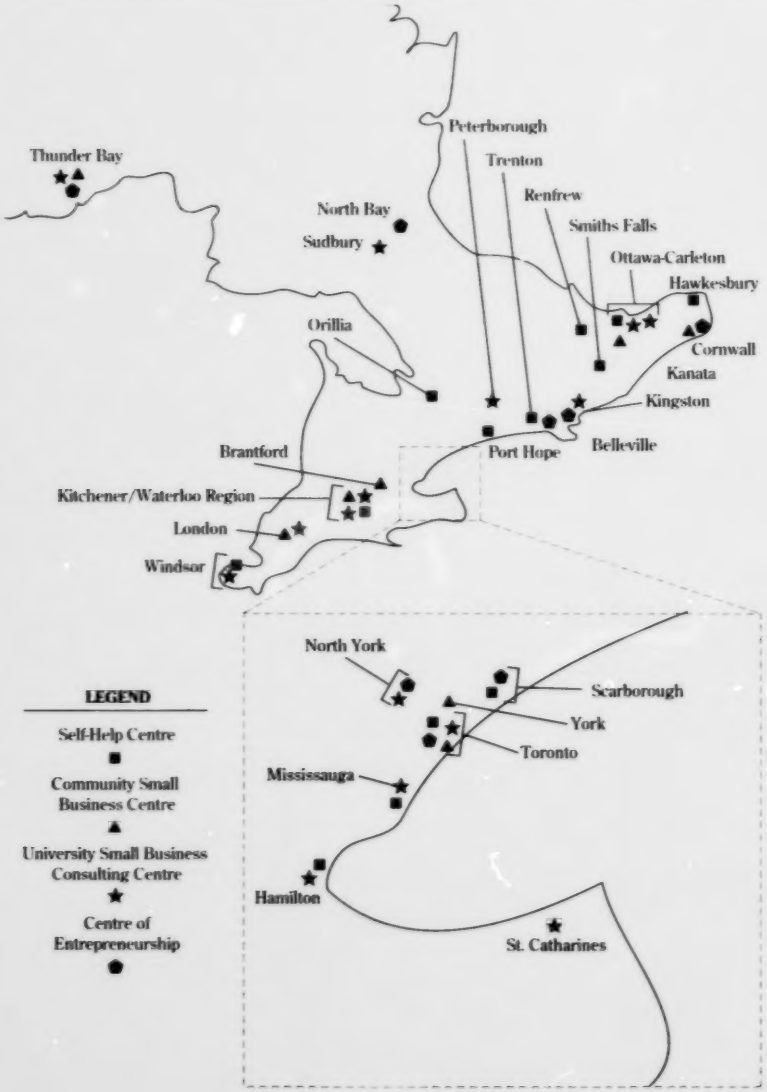
In 1987, the Speech from the Throne announced the establishment of 6 Centres of Entrepreneurship at selected colleges and universities across the province. The centres are intended to provide a focal point for entrepreneurship in postsecondary institutions. Included in their mandate is the development of curricula for entrepreneurial studies, the provision of training courses for teachers and guidance counsellors, and research and dissemination of results. Visits by entrepreneurs form a prominent part of centre activities.

The broad objectives for the centres, their involvement with the private sector and their role as geographically diverse focal points will result in significant improvements in curriculum and a cross-pollination of business and academic expertise across the province.

Funding for the centres is provided through the $1 billion Technology Fund, allocated for special purposes upon the recommendation of the Premier's Council. Each year, each centre will receive a grant from the province of up to $150,000, on the condition that an additional $50,000 is raised from the private sector by way of cash donation or equivalent value in services, such as computer time.

The sites of the various centres are identified on the following map.

Chart 9.1 *Location of Ontario Locally-Based Services*



Federal Initiatives

Provincial initiatives supporting entrepreneurship and small business are complemented by federal programs with specific, macropolicy objectives. Two significant programs are the Community Business Initiative and Operation Youth: Enterprise for Youth Employment.

Community Business Initiative

The Community Business Initiative (CBI) is a Federal Business Development Bank (FBDB) program which assists entrepreneurs and their enterprises to help themselves grow and prosper. The first Ontario CBIs were launched in Barrie and Orillia in the autumn of 1986. Since then, 7 others have been or are in the process of being established.

A local advisory committee of established business owners, professionals and community leaders assists the FBDB to identify smaller ventures in the area which need affordable, down-to-earth, "real world" advice to prosper. This identified group of 30 to 32 non-competing owner/managers then benefits from the guidance of a team of experienced resource persons.

A full-time project advisor, who is locally based, organizes 10 monthly group workshops, which focus on functional areas such as accounting, marketing, human resources, and other skills like time management. Each workshop leader is skilled in the discipline under study.

The local advisor meets each proprietor monthly to review the most recent workshop and its applicability to day-to-day operations. No diplomas or certificates are awarded: the emphasis is on practical learning that helps the entrepreneur make maximum use of resources and maximize the venture's earnings.

The service costs each participating business $2500 - $3000 annually. Some 75%-80% of the cost is rebated to the business owners through Employment and Immigration Canada and the Ontario Community Industrial Training Committees.

Operation Youth: Enterprise for Youth Employment

Operation Youth: Enterprise for Youth Employment is a federal, non-profit corporation which was founded in December 1984 by the Canadian Employment and Immigration Commission's National Labour Market Innovation Program. In August 1986, Operation Youth introduced an Entrepreneurship Development Program to help young people establish their own businesses. Funded by a combination of private donations and grants from the federal government, the program provides ongoing

support to young entrepreneurs during the critical first 3 years of operation through the following services:

- a 3-day training session on starting and operating a small business;
- ongoing advice on every aspect of small business management for 3 years;
- an information system that details the various assistance programs available to young entrepreneurs who are starting small businesses;
- a business collective that groups together, wherever feasible, a number of businesses, facilitating reduced overhead costs and yielding the benefits gained from co-operation with others.

In 1986-87, the program's first year of operation, 234 clients participated in the training sessions. By the end of the year, 165 of them were operating their own businesses.

Non-Profit Initiatives

The recent surge of interest in entrepreneurship and small business has encouraged all sectors to participate in programs and initiatives which provide a variety of services to would-be entrepreneurs. A recent effort by the YMCA is indicative of the role non-profit, non-governmental organizations can play.

YMCA Youth Enterprise

YMCA Youth Enterprise, a free service which assists young entrepreneurs in planning and starting their own businesses, is targeted to 18 to 30 year olds who are not employed full time. A 10-week training program guides young people through the startup process, focusing on the essentials of bookkeeping, marketing, finance, and operations. Follow-up consulting assistance is also provided during the first year of operation.

The program objectives are to help budding entrepreneurs:

- learn how to secure start-up money;
- prepare a business plan and venture loan application;
- understand how to forecast sales, promote the business, keep the company books;
- avoid the pitfalls before and after start-up with one-to-one consulting.

The program, the result of a collaboration among Employment and Immigration Canada, YMCA Canada, and the YMCA of Metropolitan Toronto, receives special support nationally from IBM Canada Ltd.

The Small Business Owner's Guide

Reports such as *The State of Small Business, 1988* are written more for persons seeking an overview of small business research and studies than for the practising small business owner. This section of the report, however, is designed as a short "how to" section for you, the small business owner.

What Trends are Emerging in Ontario?

Global Competition

In the increasingly global world of commerce, economic units such as Ontario need to trade goods and services with the rest of the world in order to prosper. This requires companies which have the products and corporate resources to export to other countries. To export successfully, however, you have to be able to meet the quality and prices of world class competitors, many of which have cheaper costs than Canadian firms. Thus, to be competitive on a world scale means that a firm must be on the verge of being a multinational corporation, certainly a far cry from a small business.

At any given time, there are multinationals which are growing and others that are in decline. Many Canadian multinationals are companies whose products are in danger of being overtaken by lower-priced competitors. Ontario needs companies which have products the quality or performance of which commands a price premium over the products of their overseas competitors. The recent Premier's Council Report identified threshold firms - medium-sized, rapidly growing firms poised to become multinationals if they can successfully become large, exporting firms - as a focus for government development efforts.

One implication for small business, if the Premier's Council recommendations become government policy, is that the government may focus more on developing threshold firms than on developing small business. Small businesses that are in high-growth and high-value-added sectors will find more government support than those which are not. Businesses in these non-traded sectors may have to function with less government assistance.

Another factor you may want to consider is what sector to choose for a new business. Often, an owner just starts a business in a field of interest, which is fine. However, a strategic approach would be to consider:

- Do I want the company to rapidly grow into a larger organization?
- Do I have product ideas which could be sold in the rest of the world or at least the U.S. market?
- Am I prepared to cope with the types of problems that success can bring to a company?
- Can I identify certain business sectors which have more government support than others at this time?

If the answers to these questions are yes, then you could try to start your company in one of these supported areas. By doing so, you will ensure that you are opening your company in a favourable environment where there will be continued interest and support for your business by senior levels of government.

Technology

A second trend involves technology (discussed in detail in Chapter 5). High technology products and advanced technology production methods will become increasingly important in the Ontario of the future.

Hi tech products are a rapidly growing market segment with both consumer and industrial customers. These products can be sold at a premium over traditional or commodity-type products, and are less subject to competition from emerging industrialized countries. As such, their local production is highly prized by Ontario planners. Small businesses which specialize in high technology products can expect good government support, and should prove attractive to other sources of capital such as the venture capital funds.

Advanced technology production methods include robotics, computer-controlled machinery, computer-aided design (CAD), automated materials handling, and advanced construction materials. These methods all have the computer as a common element. Since the computer can do repetitive, time-consuming work very efficiently, the "lost" time processes in design, engineering and production can be radically shortened, allowing greater flexibility in production and a concomitant reduction in costs and personnel. For example, if the set-up time on a machine is reduced from days to minutes, much shorter production runs will be possible. Savings in materials and finished goods inventories will result. Production will be able to more closely match sales, and your company will save money.

Technology is important for a small country like Canada, which has smaller markets and must compete against the U.S. and Japan, which can afford long production runs and dedicated production lines. The

increased flexibility offered by these new technologies can mean cost-effective competition even by smaller firms.

There is help available to small business owners. You can visit sites which are using these technologies. You can use the facilities provided by the provincial government, such as the technology centres and the Ontario Research Foundation, as resource bases to help you make decisions in unfamiliar areas. You can avail yourself of training courses offered by community colleges. Federal organizations such as the National Research Council (NRC) have been stepping up their collaborative associations with industry and represent a valuable resource which you can tap.

The National Research Council's Industrial Research Assistance Program (IRAP) is designed to assist the transfer of technology to Canadian industry. The field service component - the most visible - consists in Ontario of 44 Industry Technology Advisors (ITAs) based in a number of locations across the province, including the NRC itself, the Ontario Research Foundation, universities, colleges and the Ontario Centre for Advanced Manufacturing. Each ITA brings industry experience to a client base of approximately 120 small and medium enterprises. The ITAs often work in conjunction with MITT industrial development officers; the ITAs provide the technical guidance while MITT staff provide marketing and management support.

The Ontario Centre for Advanced Manufacturing (OCAM), which functions as an advisor or consultant to Ontario business, finds about one-third of its 450 annual clients are small businesses. OCAM has discovered that improving manufacturing organization is often more important than adopting high technology for many Ontario firms. The adoption of advanced technology should be evolutionary, not revolutionary. OCAM lists 7 organizational steps to contemporary manufacturing success:

1. simplify operations as much as possible;
2. recognize your workers as the real production experts;
3. emphasize quality control, so that quality becomes part of the process, not just the final product inspection;
4. make a commitment to preventive maintenance on the shop floor;
5. adopt Just-In-Time production methods;
6. encourage continuous improvement in all aspects of production;
7. use appropriate (not necessarily the latest) technology.

Free Trade

Unlike true free trade, the bilateral treaty recently negotiated between

Canada and the U.S. (the Free Trade Agreement or FTA) leaves most legislation regarding tariffs in place. The treaty is to supersede this legislation in the arena of U.S.-Canadian trade; however, U.S. trade remedies are left undisturbed. It remains to be seen how well the FTA's non-binding settlement procedures will function when disputes arise.

Most reliable and repeated surveys find that 35-40% of small business owners believe the FTA will be good for their business, while 10% are opposed. The remainder believe that the FTA will have no effect on their business.

Advantages of the FTA include: the general feeling of entrepreneurial optimism that accompanies a major change in the economic climate; the opportunity for business expansion represented by the U.S market; lower Canadian labour costs for the next few years; less stringent U.S. approval and labelling standards for products.

On the downside, many firms which are content to service the domestic market may find themselves competing with cheaper American products. Also, small companies may be hurt if their branch plant customers are closed down or repatriated.

Government Assistance in Exporting and Procurement

Two markets which are sometimes overlooked by new small businesses are the export market and government purchasers. Research has shown that small firms which export and sell to governments grow faster and are more successful than similar firms which don't. While both these markets can involve extra risks for you, the risks are balanced by the larger potential markets.

Exporting

When Canadian firms export, they almost always do so to the U.S. This is partly because of convenience. Serving the U.S. market usually means little product modification. Additionally, the product instructions and guarantees can be in English. All that is really needed is a marketing and service network, and sometimes this can be handled from the Canadian base.

Servicing Europe or the Orient is more difficult as it involves diverse cultures, distinct languages, and varying technical standards. As well, traditional standards of design and functionality may be higher than in the Canadian market, limiting the ready acceptance of Canadian products. Finally, it is more difficult to service these markets from a Canadian base and an indigenous marketing organization or agent are usually

required.

There are government programs in place to help you export your goods. These programs acquaint potential exporters with new markets (and vice versa) and reduce the added risks involved with exporting.

The Ontario Ministry of Industry, Trade and Technology (MITT) has a comprehensive range of programmes to help Ontario small businesses exploit export opportunities.

Commercial Intelligence. MITT's international marketing consultants in Ontario and in trade offices worldwide provide on-going information on the latest export opportunities of interest to Ontario business and key international market data.

Export Education and Counselling. MITT's exports consultants help you develop a marketing strategy, determine priority markets and identify resources required to carry out that strategy. They also provide specific information on export procedures and regulations. Publications on all aspects of exporting are available.

Contacts in the Export Marketplace. MITT organizes trade missions to foreign markets, participates in international trade shows, makes appointments with local buyers, agents and distributors, and brings key agents, distributors or buyers from around the world to Ontario to meet with Ontario business.

Export Financing. Through the Ontario Development Corporation's Export Support Loan Programme, financing is available for export receivables. Through MITT's Trade Expansion Fund, support is available for marketing costs, on a dollar for dollar basis, from $5,000 up to $15,000 over any 12-month period. The Export Manager for Hire programme offers an employer 50% of the salary paid to a new export manager, to a maximum total contribution of $15,000. The International Marketing Intern Programme provides similar financial assistance to firms interested in hiring recent graduates to work in exporting.

The best known federal programs are those offered through the Export Development Corporation (EDC). The EDC provides insurance, financing and guarantee services for exporters. The major program, Export Credit Insurance, guarantees 90% of foreign receivables, thus reducing the uncertainties stemming from customer bankruptcy and defaults or interruptions due to currency controls or war. The EDC provides more than 20 types of export insurance to cover different export needs. The EDC can also supply credit reports on foreign buyers, export loans to finance up to 85% of the transaction for the buyer, and information regarding other agencies which assist Canadian exporters.

Another agency, the Canadian Commercial Corporation (CCC),

specializes in facilitating export sales by Canadian suppliers to foreign governments and agencies, such as the United Nations. The CCC can assist you by simplifying the process, reducing paperwork and onerous terms, and adding credibility in the eyes of the foreign buyer.

A third source of help is the Department of External Affairs (DEA). DEA has trade officers in most embassies and consulates who can help you penetrate individual markets. DEA also sponsors trade shows, selling trips and exhibits which introduce Canadian products and producers to foreign markets. DEA uses a computer database called *WIN* which contains information on some 21,000 Canadian companies wishing to export. DEA's *Info Export* group, which can be reached through a toll free number (1-800-267-8376), provides answers and assistance to export questions and problems.

Government Purchases

THE PROCESS OF GOVERNMENT PROCUREMENT

Purchases by all levels of government in Canada comprise 15% of the Gross Domestic Product. Servicing the needs of government agencies can be an important source of growth for small businesses. It is important for you to be aware of the agencies and processes used in government procurement.

The most common methods of procurement are the direct purchase from approved suppliers and the solicitation of bids from suppliers on an approved list. Only the federal Department of Public Works uses public announcements of open tenders to any great degree. This means that your business must get itself listed to participate in government purchases. You can register your company on various supplier lists used by governments. The various levels of government publish documents to help businesses get their products or services listed.

Government purchasing policies may include, besides value for money, specific considerations such as Canadian content or regional expansion. The most common is the Canadian-preference policy, designed to penalize suppliers with high foreign content. The supplier estimates the non-Canadian content of the bid, and the bid is assessed a pricing penalty of up to 10% on the non-Canadian portion.

The Ontario Government's Industrial Development Review Process (IDRP) program is designed to foster development of business through the procurement process. IDRP calls for a review of any purchases larger than $250,000 with the intent of maximizing industrial development.

IDRP has not been widely applied and has had negligible impact on purchasing decisions in Ontario, probably because most government purchases are under $250,000.

The Premier's Council Report found that purchases were spread so widely among Ontario business that no one firm acquired a base large enough to become a competitive, low-cost producer which could use its Canadian production as a springboard to becoming an international exporter. The Council recommended a strategic procurement plan to target larger contracts aimed at businesses which have the resources and are poised to enter the world market. Such a program, if implemented, will obviously have ramifications on small business suppliers.

While it may be effective in some cases, professional lobbying is expensive and often of questionable ethical value. It is generally not an option for small business. However, there is value in having the products, services and capabilities of your firm known to the members of the department or committee which evaluates bids and purchases, especially if there is a large service or expertise component to the bid.

You should do everything in your power to make sure that information flows smoothly between the procuring department and your firm. The bids should be comprehensively filled out, clear, unambiguous, and followed up by personal contact where possible. In the event of a losing bid, you should investigate the reasons and causes in order to better plan your next bid.

Personal contact with the end user agencies and ministries helps to keep the departments informed about your product or service and gives you direct feedback about your prices, service and product quality and functionality.

The federal government also sponsors procurement outlook conferences and supplier briefings to alert the business community to the upcoming needs of the government.

OVERCOMING BARRIERS TO PARTICIPATION

There are several barriers to the active participation of small businesses in the government procurement process.

From the government's point of view, dependability of supply is a major consideration. This means that you must convince the buying agency that you are stable and have the necessary financial resources to complete your commitments under the procurement agreement. This will not be a problem if you are supplying a standard product out of your normal production run. However, if your firm is new or unknown, or if

the government contract comprises a significant share of your production run, failure to do this bridge-building during the bidding process may result in your being passed over even if you have the best price.

From the small business point of view, the major barrier is the large amount of regulation and paperwork which may accompany the procurement process. This results in higher costs of doing business. When coupled with the government's desire for economy, it can also result in contracts with a lower than normal gross margin - a dangerous situation for many small businesses. In addition, if the government contract is a significant portion of your company's output, you must consider the effects of "lumpy" production runs and what would happen to your firm if it did not win a similar contract next year.

Some costs, such as those incurred in developing and certifying components to a military standard for the Department of National Defense, cannot be avoided. Other substantial upfront costs, such as the time spent in preparing the design or bid itself, can generally be recovered if your firm wins the bid. However, if your firm loses the bid, then the cost must be absorbed internally. Even when a tender is won, paperwork may drag out the process of payment beyond the norm for your industry, and your firm will have to absorb the carrying costs involved with the implicit financing of receivables.

To lower the cost of bidding and to maximize the chances of winning a bid, place yourself in the position of the persons who will be awarding the bid. Standard government forms should be used, properly and completely filled out, to provide the government with the basic information necessary to evaluate the bid. Additional material which highlights the advantage of your product can also be attached, in order to set your bid apart from the rest. You will want your bid to stand out in terms of completeness and professionalism as well as price, since price is seldom the only criteria used in selecting a bid. Pay careful attention to the information flow between your firm and the government, keeping your profile high and listening for clues to what the government really wants.

It is important to understand the differences between the various types of government bids: RFQs (request for quote), RFPs (request for proposal), and RFTs (request for tender) each require a different type of response from would-be suppliers. In particular, a request for proposal is generally looking for some creative input and ideas in addition to the specific requirements listed in the request.

Finally, the procurement process of the federal government is centralized in the Department of Supply and Services and the Department of Public Works, both located in Ottawa. The Ontario procurement process

is decentralized in the various Ministries, parts of which are increasingly being dispersed to smaller regional Ontario centers. Thus, different approaches may be needed for the two levels of government.

What About Growth?

Growth is a two-edged sword for small business. Several chapters in this report deal with the problems, financial and managerial, that growth can bring.

Financial problems caused by growth are generally simple to understand - optimum rates of growth in sales and production almost always outstrip the ability of the firm to finance them from internally-generated cash flows. If a firm is solvent and well-run with good prospects, it will be able to raise money from the sources mentioned in Chapter 8. However, raising funds for expansion is much more difficult for a struggling firm.

A large corporation may have several vice-presidents to handle various management tasks in the company; the typical small business has only one or possibly two senior executives. Great demands are placed on the time and abilities of the owner - you. While you may be a terrific entrepreneur or engineer or salesperson, it is extremely unlikely that you are good at all the functions that a small business requires, especially during periods of rapid growth and transition to a larger firm. At this point, you may have to relinquish some personal control by hiring competent specialists in various fields and delegating managerial responsibility to them. It is amazing how many entrepreneurs cannot manage this transition without first driving the company to the brink of receivership.

The Ontario government is keenly interested in helping companies achieve rapid growth. The continued growth and sophistication of the venture capital market will help to address the financial problems involved with growth. But the management problem, knowing when to let go and delegate, may not be so easily solved, although education can help.

As we head into the 1990's training is becoming increasingly important if small businesses are to flourish in the Ontario economy. Increased global competition means that success will depend on the ability to match the quality standards and prices of international competitors. A well-trained, highly-skilled workforce will take you a long way toward meeting – or surpassing – the performance of competitors.

Sophisticated technologies in the workplace require that your employees be trained to work with increasingly complex equipment. Roughly one in ten jobs in Canada now depends on information technolo-

gy. Projections point to increased use of process technologies in manufacturing, particularly in areas of automated manufacturing and computer-aided design. These new technologies are costly to install and need trained personnel who know how to service and use them.

In many instances, workers must now be trained in a broader range of areas. Management skills and marketing expertise will be important in all sectors. Analytical and interpersonal skills like team work, problem solving, conflict resolution and communication will be required – particularly in "people-oriented" service companies where employees are a firm's most valuable resource.

Small businesses have often hired employees who got their training in larger companies, but this may have to change. The rapid rate at which new technologies are introduced will require that such training be available on an ongoing basis even in the smallest firms. It is important that you adopt the practice of frequent training to meet your company's varied skill needs.

The provision of adequate and ongoing training is a particular challenge for the smaller employer, who typically lacks a well-developed training infrastructure or specialized training personnel. The costs of training put small business at a disadvantage relative to larger companies and foreign-owned branch plants. It is important that you have access to outside expertise to assist in the development of individualized training plans and bring into reach the appropriate training programs.

How to Get Financing for Your Business

There are two types of financing which are generally available - equity and debt.

Equity is money advanced to the firm in return for a portion of the ownership of the firm. The people who put equity capital into the firm become partial owners of the firm and participate in any future profits (and losses). The advantage of equity funds is that they do not have to be repaid, nor do they need to be serviced by regular interest payments. The disadvantage is that some of your ownership is given up. Owners participate in any upside growth in the firm but also assume the risk of business failure; thus, equity funds are considered to be a higher-risk investment.

Debt is borrowed funds advanced to the firm in the expectation that they will be repaid, either at a given time (demand loan) or regularly over a given period. In return, interest is charged for the use of the money. You don't surrender any ownership. However, in order to secure the

loan, you and the firm will usually be asked to pledge collateral of an amount at least equal to the money advanced. If the loan is not repaid as agreed, the collateral may be taken over by the lender to satisfy the obligation.

Small businesses generally use a combination of both debt and equity funds when they start up. The equity capital often comes from the friends and family of the entrepreneur, while the borrowed funds are obtained from a chartered bank and are often secured by personal assets such as the family home. A third source of money is grants or loans available from some levels of government. Not all small businesses choose to use these funds, often because of the relatively small amounts of money available and the large amount of paperwork and regulation which accompanies some of these programs. Other sources of money are detailed in Chapter 8.

Owners invariably underestimate the time and expenses involved in starting a new venture, and overestimate the revenues which they expect to generate. The result is that the company almost always faces a financial shortfall sometime in its early existence which can put it into bankruptcy unless new emergency funds are found - and emergency funds are extremely hard to come by. This can even happen to businesses which are selling everything they are producing. To allow for this, you should raise more money than you think is needed in the initial round of financing. This can form a strategic reserve against the many factors which can hurt a small business in its formative stages.

Debt Financing

Debt financing for small business is handled mainly by the chartered banks in Canada. Even government assistance programs are often administered by the banks. Small business comprises about 25% of the loan portfolio of the chartered banks.

It is important to remember that bank money is not risk capital. Banks will want collateral and evidence of your personal financial stake in the new enterprise. Your chances of success with the bank will be increased if your business plan is well-thought-out. Loans to small business are not one-time events, but the first step of a long-term borrowing relationship, which must be nourished with timely information and trust.

In personal finances, many people eschew debt, but this may not be the wisest policy for businesses. Moderate amounts of leverage can increase the profitability of many businesses, and companies which don't use leverage may not be able to grow as fast as those that do.

If a bank refuses to lend you money, but your business plan is sound, there are several government programs which may help. The first is the Small Businesses Loans Act (SBLA), which is a federal program which guarantees the bank 85% of the loan made to a business which meets the guidelines. This allows the banks to fund investments which are riskier than the norm. The major restriction under the SBLA is that the money must go toward the improvement or acquisition of productive assets. It can't be used for working capital or operating expenses.

Another source of funds is the Federal Business Development Bank (FBDB), which has a mandate to develop Canadian business and specializes in financing business projects which have been turned down by banks. To allow for the larger risks involved, the FBDB charges higher interest on its loans. (It also provides management services, seminars and training and can be a valuable resource for your business even if you are not a loan client.)

There are several provincial programs administered by The Development Corporations. With offices in all areas of the province, The Development Corporations provide term loans, interest subsidies, and guarantees to higher-risk enterprises. The New Ventures Program, which is run by the Ontario Development Corporation, offers loan guarantees to start-up ventures. Interest only is payable during the first year of the loan. The business is also required to complete a business review every 6 months - this requirement helps organize the affairs of those borrowers which may not be following a business plan.

Equity Financing

The first equity financing often comes from family or friends who advance money to you in return for some stock in the company. Most start-ups never use a formal venture capital firm for equity funds. But as your company grows, it may need access to funds available from the organized Canadian venture capital industry.

The Canadian venture capital industry is not as large as in the U.S., but it is growing rapidly as more firms enter the market and large pension funds designate some of their resources toward venture funds.

Many entrepreneurs are reluctant to give up equity in their company, as they fear loss of control or profits. However, venture capital firms are almost never interested in control, as they want you to run the company rather than themselves. And since the rate of growth of a well-funded company can greatly exceed that of a cash-starved one, a venture investment can result in higher profits for the owner as well.

Venture capital firms are interested in selling out their investment in 3-5 years, as most of their return is going to be in capital gains, not in dividends. Thus, they are more likely to invest in firms which are in the high-growth stage, rather than in the start-up or mature phase. Because of this, the various levels of government have been trying to provide seed money to fill the gap, so that venture capital funds will be available to start-up firms as well.

Ontario's Small Business Development Corporations program allows private and corporate investors to set up a small business development corporation (SBDC) which then invests in a small enterprise. Investors get a cash grant or tax credit equal to 25% of their investment from the government, and still participate as shareholders in the small enterprise's growth.

The Ontario Employee Share Ownership Plan (ESOP) provides grants to eligible employees purchasing shares of their employer corporation under an employee share ownership plan that has been registered with the Ministry of Revenue. Employees purchasing shares under a registered plan may apply for a grant equal to 15% of the purchase price of the shares to a maximum annual grant of $300. Allowing employees to own shares in your business can be very beneficial, not only because it provides you with a source of extra equity capital but also because it raises employee interest in the firm's profit potential, which can lead to higher employee morale and a greater incentive to see the company succeed financially.

Innovation Ontario, a sister corporation to ODC, helps to start new technology-based businesses by providing start-up investment. This investment can then either be repurchased by the firm over time (like repaying a loan) or divested through a sale of the shares to a third party, depending on the terms negotiated between the company and Innovation Ontario. Innovation Ontario also provides technical, marketing and business assistance to its investments.

Government Assistance Programs

Money is perhaps the most visible need of a small business, but it's not necessarily the most critical. Even a well-funded company can fail under bad management. The importance of entrepreneurship to the economic health of the country is widely recognised, and there are many government programs aimed at educating and assisting those who have an interest in running their own business.

There are many excellent books available in bookstores and libraries

which will guide you through the preparation of a business plan. Ontario's Ministry of Industry, Trade and Technology (MITT) offers a seminar and publishes a book on *How to Start a Small Business in Ontario* which give practical information on business plans. The Federal Business Development Bank also offers a course on small business start-up.

Almost all Ontario universities have a small business consulting service which provides low-cost consulting services to small businesses. Two-thirds of these centres are open year-round, while the remainder are open during the summer months.

Six Centres of Entrepreneurship at selected colleges and universities, though intended for academic work on entrepreneurship, also invite outside experts to review business plans and advise rookie entrepreneurs.

Self-Help Centres have been started in many communities to provide a library of business material and an entry-level consultant to provide assistance to people planning a new venture.

The provincial educational television network, TVOntario, runs a number of programs, such as the popular series *Frontrunners*, that focus on starting and running your own business. Some programs can be taken for community college credit. The programs are repeated at various time through the year.

Through its two Start Up programs, Youth Venture Capital and Student Venture Capital, the Ontario Ministry of Skills Development offers interest-free loans to young people with good business ideas. The programs are operated in co-operation with The Royal Bank of Canada and the Ontario Chamber of Commerce through local chambers of commerce.

The Community Business Initiative (CBI) is a Federal Business Development Bank (FBDB) program which assists entrepreneurs and their enterprises to help themselves grow and prosper. The emphasis is on practical learning that helps you make maximum use of resources and maximize your venture's earnings.

Operation Youth, a federal, non-profit corporation, runs an Entrepreneurship Development Program to help young people establish their own businesses. The program aims to provide young entrepreneurs with business and managerial skills and a level of professional advice not otherwise available. It provides ongoing support during the critical first 3 years of operation through the following services:

- a 3-day training session on starting and operating a small business;
- ongoing advice on every aspect of small business management for

3 years;

- an information system on assistance programs available to young entrepreneurs;
- a business collective that groups together a number of businesses to facilitate reduced overhead costs and yield the benefits gained from co-operation.

YMCA Youth Enterprise, a free service which assists young entrepreneurs in planning and starting their own businesses, is targeted to 18 to 30 year olds who are not employed full time. A 10-week training program guides young people through the startup process, focusing on the essentials of bookkeeping, marketing, finance, and operations. Follow-up consulting assistance is also provided during the first year of operation.

Training assistance geared to the particular needs of Ontario's small businesses is available through the Ministry of Skills Development. The Ministry's Ontario Skills Development offices, located across the province in the Community Colleges of Applied Arts and Technology, will assist you in identifying your training needs and drawing up detailed training plans.

The Ontario Skills Training Program, administered through the Ontario Skills Development Offices, provides financial subsidies to defray training costs. A company with 200 or fewer employees can receive up to 80% of direct training costs.

Through the Apprenticeship program, you can provide valuable training in the skilled trades by hiring trainees who then learn trades through a combination of on-the -job training and formal study programs. The Trades Updating program offers an opportunity for you to update the knowledge of your skilled tradespeople. The program is offered free of charge in the Community Colleges of Applied Arts and Technology, at the workplace or by outside training agencies.

Also provided at no cost to you is the Technicians and Technologists Skills Updating program, which emphasizes training in new and emerging technologies such as computer-aided design, technology management and communications technologies.

Under the Ontario Basic Skills in the Workplace Program, the Ministry of Skills Development will also fund up to 100% of training costs where you sponsor basic literacy and numeracy upgrading for employees.

Through the Canadian Jobs Strategy, the federal government also administers training programs of interest to small businesses. For example, the Skill Shortages program offers you assistance to upgrade the

skills of your employees in federally-designated occupations of existing or potential skill shortages. The Skill Investment Program assists workers to obtain new skills in response to technological and economic change.

Useful Addresses and Telephone Numbers for Further Information

- For information on all MITT programs of assistance to small business, you can call the Small Business Toll-free Hotline: 1-800-387-6142.

- MITT also sponsors seminars and issues several publications, including the one you are holding. Of particular interest to would-be entrepreneurs is the book *How to Start a Small Business in Ontario*, which has practical information on business plans, government assistance and legislation affecting small business ventures. Contact:

  Publications Ontario
  880 Bay St.
  Toronto, Ontario M7A 1N8

  (416) 965-6015
  in area code (807), ask operator for Zenith 67200;
  in other area codes, 1-800-268-7540.

- To subscribe to *Small Business Ontario*, write to:

  Small Business Ontario
  7th Floor, Hearst Block
  900 Bay St.
  Queen's Park
  Toronto, Ontario M7A 2E3.

- For information on the financial assistance programs offered by The Development Corporations, contact:

  5th Floor , 56 Wellesley St. West
  Toronto, Ontario M7A 2E7
  (416) 965-4622.

- Information on Innovation Ontario may be obtained from:

  Innovation Ontario Corporation
  7th Floor, 56 Wellesley Street West
  Toronto, Ontario M7A 2E7
  (416) 963-5717.

- The *Small Business Problem Solver* series of pamphlets is available from your local branch of the Bank of Montreal. Other banks in your area may also have publications to assist you.

- The Canadian Bankers' Association publishes an excellent handbook entitled *Financing A Small Business - Working With Your Bank*. To receive a copy, write to:

  The Canadian Bankers' Association
  Box 348, Suite 600,
  2 First Canadian Place,
  Toronto, Ontario M5X 1E1.

- A summary booklet and other information is available on the SBDC program by writing to:

  Small Business Development Corporations Program
  Ministry of Revenue
  33 King St. West
  P.O. Box 625
  Oshawa, Ontario L1H 8H9.

- For information on the Employee Share Ownership Plan (ESOP), call collect (416) 430-ESOP.

- For information on the programs of the Federal Business Development Bank, write:

  Federal Business Development Bank
  P.O. Box 335,
  Stock Exchange Tower Station
  Montreal, Quebec H4Z 1L4
  (514) 283-5904
  (416) 973-0062

  or call the local branch in your area.

- For more information on Ontario's export programmes, contact your local MITT office or call or write:

  International Marketing
  5th Floor, Hearst Block
  900 Bay Street
  Toronto, Ontario
  M7A 2E1
  (416) 963-2500
  Fax: (416) 965-7791

- The export trade information line at the federal Department of External Affairs can put you in touch with other federal agencies, such as the Export Development Corporation and the Canadian Commercial Corporation, as well as provide information on DEA programs such as WIN and Canadian trade promotions. Call Info Export: 1-800-267-8376; (613) 993-6435 in the Ottawa region.

- For information on the Small Business Consulting Centres at each Ontario university campus (except the University of Guelph), phone the Faculty of Business at your nearest university for advice on contacting your local centre.

- The locations of the 6 Centres of Entrepreneurship are:

  The Ryerson Centre of Entrepreneurship;
  The North Bay Centre of Entrepreneurship (Canadore College and Nipissing College);
  The Lakehead University/Confederation College Centre of Entrepreneurship;
  Enterprise York (at York University);
  The Eastern Ontario Centre of Entrepreneurship (at Queen's University, St. Lawrence College and Loyalist College);
  The Centennial College Centre of Entrepreneurship.

- For information on TVOntario courses, contact TVOntario at 1-800-268-6255.

- More information on the Start Up program - interest-free loans available through the Ministry of Skills Development for young people with good business ideas - is available from local chambers

of commerce, branches of The Royal Bank, any high school, community college or university placement centre in Ontario, or by calling the Youth Hotline at 1-800-387-0777.

- For information on the Community Business Initiative, contact the FBDB at (416) 973-1144.

- For information on Operation Youth, phone (416) 861-1812.

- For information on YMCA Youth Enterprise, contact your local YMCA; in Toronto, phone 651-0010.

- For information on OCAM, contact:

  Ontario Centre for Advanced Manufacturing
  190 Attwell Drive, Suite 402
  Rexdale, Ontario M9W 6H8
  (416) 675-4363.

- You can get your product or service listed on the Ontario government's centralized data base by filling out a Supplier Information Request Form, available from:

  Supplier Information Service
  6th Floor, Ferguson Block
  Queen's Park
  Toronto, Ontario M7A 1N3
  (416) 965-6937.

- For a free copy of *Ontario's Public Sector Market*, a book on how to do business with the Ontario government, call MITT's Business Development Branch at (416) 965-1809.

- Information on all Ontario Ministry of Skills Development training programs and services is available through the toll-free Training Hotline: 1-800-387-5656.

Le guide du propriétaire de petite entreprise

Des rapports tels que *La situation des petites entreprises en 1988* sont destinés surtout aux personnes qui ont besoin d'un aperçu des recherches et des études effectuées sur les petites entreprises, plutôt qu'aux exploitants de petites entreprises en tant que tels. Cependant, la présente partie du rapport constitue en quelque sorte un bref guide de démarrage conçu spécialement pour les propriétaires de petites entreprises.

Tendances en Ontario

Concurrence sur le plan mondial

Dans le monde du commerce, où tout se fait de plus en plus à l'échelle mondiale, les entités économiques telles que l'Ontario doivent vendre des biens et des services au reste du monde pour pouvoir prospérer. Il faut donc que les compagnies aient des produits à exporter et les ressources qui leur permettent de le faire. Cependant, pour réussir dans le domaine de l'exportation, il faut vendre des produits moins chers et de meilleure qualité que ceux de ses concurrents qui, dans de nombreux cas, ont des frais d'exploitation bien inférieurs à ceux des compagnies canadiennes. Ainsi, pour qu'une société soit concurrentielle sur le plan mondial, il faut qu'elle soit sur le point de devenir une multinationale, ce qui n'est certainement pas le cas des petites entreprises.

Parmi les multinationales, certaines prennent de l'expansion, et d'autres régressent. De nombreuses multinationales canadiennes risquent d'être dépassées par des concurrents qui vendent leurs produits moins cher. L'Ontario a besoin d'entreprises qui fabriquent des produits dont la qualité ou le rendement justifie un prix plus élevé par rapport aux produits de leurs concurrents de l'étranger. Le rapport du Conseil du premier ministre, publié récemment, a identifié les entreprises qui devraient recevoir un appui particulier du gouvernement, c'est-à-dire les entreprises moyennes à croissance rapide, qui pourront devenir des multinationales si elles réussissent à faire beaucoup d'exportations.

Si les recommandations du Conseil du premier ministre sont mises en oeuvre par le gouvernement, il est possible que ce dernier accorde plus d'aide aux entreprises moyennes en pleine croissance qu'aux petites entreprises. D'autre part, les petites entreprises qui connaissent une

croissance importante dans des secteurs à forte valeur ajoutée recevront plus d'aide du gouvernement que les autres.

Par ailleurs, il peut être utile pour les entrepreneurs de bien réfléchir au secteur d'activité de leur nouvelle entreprise. Il arrive souvent qu'un entrepreneur se lance simplement dans le domaine qui l'intéresse, mais dans le cadre d'une réflexion approfondie, il peut se poser les questions suivantes :

- Est-ce que je veux que ma compagnie prenne beaucoup d'expansion?
- Mes produits pourraient-ils être vendus sur le marché international, ou au moins sur le marché américain?
- Suis-je prêt à surmonter les problèmes qui accompagneraient la réussite de ma compagnie?
- Puis-je dire quels sont les secteurs d'activité qui font l'objet d'une aide accrue de la part du gouvernement?

Si vous pouvez répondre à toutes ces questions par l'affirmative, vous pourriez choisir un domaine d'activité appuyé par le gouvernement. Votre compagnie se trouverait dès le départ dans une situation favorable, et elle ferait l'objet d'un intérêt et d'un appui soutenus de la part du gouvernement.

La technologie

La deuxième tendance qui touche les compagnies ontariennes concerne la technologie (traitée en détail au chapitre 5). Les produits et les méthodes de production de pointe prendront de plus en plus d'importance en Ontario dans l'avenir.

Le marché des produits de pointe est un secteur en pleine croissance, tant chez les consommateurs que chez les clients industriels. Ces produits peuvent être vendus plus cher que les produits traditionnels, et font l'objet d'une concurrence moins forte de la part des pays en voie d'industrialisation. La production locale est très prisée par les planificateurs ontariens; les petites entreprises qui se spécialisent dans les produits de pointe peuvent s'attendre à recevoir un bon appui financier du gouvernement, et à avoir accès à d'autres sources de financement, notamment le capital de risque.

Les méthodes de production de pointe font notamment appel à la robotique, aux machines commandées par ordinateur, à la conception assistée par ordinateur (CAO), à la manutention automatisée et aux

matériaux de construction de pointe. Ces méthodes ont en commun l'utilisation de l'informatique. Comme l'ordinateur peut effectuer avec beaucoup d'efficacité des tâches longues et répétitives, le temps normalement "perdu" lors de la conception, de l'ingénierie et de la production peut être considérablement réduit, ce qui permet une production plus souple et une réduction des coûts et du personnel. Par exemple, si l'on peut réduire le délai de mise en route d'une machine pour le faire passer de quelques jours à quelques minutes, les périodes de production pourront être beaucoup plus courtes. Il sera donc possible de réaliser des économies sur le plan des matériaux et des stocks de produits finis. De même, comme la production correspondra mieux aux ventes, la compagnie épargnera.

La technologie est particulièrement importante pour un petit pays comme le Canada, dont les marchés sont restreints et qui doit entrer en concurrence avec les États-Unis et le Japon, qui peuvent se permettre de longues périodes de production et des chaînes de production spécialisées. La souplesse accrue qu'offrent ces nouvelles techniques permet même aux petites entreprises de soutenir la concurrence.

Les propriétaires de petites entreprises peuvent obtenir de l'aide dans ce domaine. Ils peuvent visiter des usines où l'on utilise ces techniques, se servir d'installations du gouvernement provincial, telles que les centres de technologie et la Fondation de recherches de l'Ontario, pour prendre des décisions sur des questions qui ne leur sont pas familières, et suivre des cours de formation offerts par des collèges communautaires. Des organismes fédéraux tels que le Conseil national de recherches (CNRC) ont intensifié leur collaboration avec l'industrie et représentent une source d'aide valable à laquelle on peut puiser.

Le Programme d'aide à la recherche industrielle (PARI) du Conseil national de recherches vise à faciliter le transfert des technologies aux industries canadiennes. Le service de consultation régionale, élément le plus visible de ce programme, est assuré en Ontario par 44 conseillers travaillant dans divers établissements de la province, notamment le CNRC, la Fondation de recherches de l'Ontario, des universités, des collèges et le Centre de technologie de fabrication avancée de l'Ontario. Chaque conseiller fait profiter une clientèle d'environ 120 petites et moyennes entreprises de son expérience industrielle. Les conseillers travaillent souvent en collaboration avec les responsables du développement industriel du MICT; ils assurent l'orientation technique, et le personnel du ministère s'occupe de la commercialisation et de la gestion.

Le Centre de technologie de fabrication avancée de l'Ontario (CTFAO), qui joue le rôle de conseiller auprès des sociétés ontariennes,

compte parmi sa clientèle 450 compagnies, dont le tiers sont de petites entreprises. Le CTFAO a constaté que pour de nombreuses compagnies ontariennes, il est plus important d'améliorer l'organisation de la production que d'adopter des techniques de pointe. La mise en place de ces techniques devrait faire partie de l'évolution de la compagnie, et ne pas donner lieu à des bouleversements. Le CTFAO a divisé l'organisation moderne de la production en sept étapes :

1. Simplifier au maximum les activités;
2. Reconnaître que les travailleurs constituent les véritables experts sur le plan de la production;
3. Mettre l'accent sur le contrôle de la qualité, pour que celle-ci fasse partie intégrante de l'ensemble de la production et non seulement de la vérification du produit final;
4. Effectuer de l'entretien préventif en usine;
5. Adopter des méthodes de production au moment adéquat;
6. Favoriser l'amélioration continuelle de la production;
7. Utiliser des techniques appropriées (pas nécessairement les plus récentes).

Le libre-échange

Contrairement à ce que serait un véritable libre-échange, le traité bilatéral négocié récemment par le Canada et les États-Unis (l'Accord de libre-échange ou ALE) ne modifie pas la plus grande partie de la législation relative aux droits de douane. Le traité est censé avoir préséance sur cette législation en ce qui concerne le commerce entre les États-Unis et le Canada; cependant, les mesures commerciales auxquelles les États-Unis pouvaient avoir recours ont été laissées en place. L'efficacité de la procédure de règlement non obligatoire prévue dans l'ALE reste à vérifier.

Selon de nombreux sondages fiables, de 35 à 40 pour 100 des propriétaires de petites entreprises croient que l'ALE aura des effets positifs sur leur entreprise, alors que 10 pour 100 y sont profondément opposés. Le reste considère que l'ALE n'aura aucune incidence sur leur entreprise.

Parmi les avantages de l'ALE, on relève le sentiment général d'optimisme qui accompagne tout changement majeur de la situation économique, les possibilités d'expansion que présente l'accès aux marchés américains, des frais de main-d'oeuvre inférieurs au Canada pour les quelques prochaines années, ainsi que les normes d'approbation et d'étiquetage des produits moins strictes aux États-Unis.

Par contre, les nombreuses compagnies qui se contentent d'approvisionner le marché intérieur pourraient se trouver en concurrence avec des compagnies américaines dont les produits sont moins chers, et les petites entreprises pourraient être touchées par la fermeture ou le rapatriement des filiales qui font partie de leur clientèle.

L'aide gouvernementale à l'exportation et l'approvisionnement du secteur public

Les nouvelles petites entreprises négligent souvent les marchés d'exportation et la clientèle du secteur public. Des recherches ont permis de démontrer que les petites entreprises qui font de l'exportation et qui vendent leurs produits au secteur public connaissent une croissance plus rapide et réussissent mieux que celles qui ne le font pas. L'importance de ces deux marchés compense les risques que ces derniers présentent pour les petites entreprises.

L'exportation

La plupart des entreprises canadiennes qui font de l'exportation ont pour marché cible les États-Unis. Cela est en partie attribuable à des raisons pratiques. Ainsi, il n'y a que peu de modifications à apporter aux produits, et les modes d'emploi et garanties peuvent être rédigés en anglais. Tout ce qu'il faut faire, c'est établir un réseau de commercialisation et de service, ce dont peut s'occuper parfois le siège social canadien.

Il est plus difficile d'approvisionner l'Europe ou l'Asie, en raison des différences sur les plans culturel, linguistique et technique. Par ailleurs, les normes traditionnelles de conception et de fonctionnement peuvent être plus strictes sur ces marchés qu'au Canada, ce qui empêche l'acceptation rapide des produits canadiens. Enfin, il est plus difficile de servir ces marchés à partir du siège social canadien et il faut habituellement constituer un organisme de commercialisation ou embaucher un représentant sur place.

Certains programmes gouvernementaux sont destinés aux petites entreprises qui font de l'exportation. Ces programmes informent les exportateurs éventuels de l'existence de nouveaux marchés (et vice versa) et permettent de réduire les risques associés à l'exportation.

Le ministère de l'Industrie, du Commerce et de la Technologie de l'Ontario (MICT) offre une vaste gamme de programmes aux petites entreprises ontariennes pour les aider à saisir les débouchés qui existent à l'étranger.

Information commerciale : Les spécialistes en commerce international du ministère, en Ontario et à l'étranger au sein des délégations commerciales, constituent une source d'information permanente sur les nouveaux débouchés à l'exportation susceptibles d'intéresser les entreprises ontariennes et sur les marchés internationaux.

Formation et conseils en exportation : Les spécialistes de l'exportation du ministère vous aident à élaborer votre stratégie commerciale, à choisir vos marchés par ordre de priorité et à trouver les ressources nécessaires. Ils connaissent en détail les procédures et la réglementation en vigueur. En plus, le ministère publie des brochures sur tous les aspects de l'exportation.

Contacts dans le milieu de l'exportation : Le MICT envoie des délégations commerciales à l'étranger, participe aux salons internationaux, rencontre des acheteurs, agents et distributeurs locaux et invite des personnalités importantes de l'exportation, un peu partout dans le monde, à venir rencontrer les entrepreneurs ontariens.

Financement des exportations : La Société de développement de l'Ontario aide les entreprises à financer leurs comptes-clients à l'exportation par l'intermédiaire de son Programme de prêt et d'aide à l'exportation. Il y a également le Fonds de développement du commerce extérieur du MICT, qui rembourse entre 5 000 $ et 15 000 $ des coûts de commercialisation sur une période de 12 mois. Dans le cadre du Programme d'embauche de directeur d'exportation, le ministère verse à l'employeur la moitié du salaire du nouveau directeur d'exportation, jusqu'à concurrence de 15 000 $. Le Programme d'embauche de stagiaires en commerce international offre le même genre de financement aux entreprises désireuses de donner aux jeunes diplômés une formation dans le domaine de l'exportation.

Les programmes fédéraux les plus connus sont offerts par l'entremise de la Société pour l'expansion des exportations (SEE). La SEE fournit des services d'assurance, de financement et de garantie aux exportateurs. Son principal programme, l'assurance des crédits à l'exportation, garantit 90 pour 100 des comptes-clients étrangers, ce qui compense l'incertitude relative à la possibilité de faillite du client, ou de défaut ou d'interruption de paiement, en raison de restrictions touchant les devises ou d'un conflit armé. La SEE vend plus de 20 types d'assurance exportation qui varient selon les besoins. En outre, elle fournit des rapports sur la solvabilité des acheteurs étrangers, offre des prêts à l'exportation servant à financer jusqu'à 85 pour 100 des achats effectués par les clients étrangers, et donne des renseignements concernant d'autres organismes qui peuvent aider les exportateurs canadiens.

Un autre organisme, la Corporation commerciale canadienne (CCC), facilite les exportations de fournisseurs canadiens destinées à des gouvernements et à des organismes étrangers, tels que les Nations Unies. La CCC peut aider les petites entreprises à simplifier leurs activités d'exportation en réduisant leur coût, ce qui leur donne de la crédibilité aux yeux des acheteurs étrangers.

Le ministère des Affaires extérieures (MAE) constitue une troisième source d'aide. Dans la plupart des ambassades et consulats du Canada, le MAE emploie des agents commerciaux qui peuvent aider les petites entreprises à s'infiltrer dans certains marchés. En outre, le ministère parraine des foires et des missions commerciales ainsi que des expositions qui permettent de présenter les produits et les producteurs canadiens aux marchés étrangers. Le MAE utilise une base de données informatique appelée WIN qui contient des renseignements sur quelque 21 000 compagnies canadiennes voulant faire de l'exportation. Le service *Info Export* du MAE, qui offre des renseignements et de l'aide aux exportateurs, peut être rejoint sans frais au numéro 1-800-267-8376.

Achats effectués par le secteur public

L'APPROVISIONNEMENT DU SECTEUR PUBLIC

Les achats effectués par tous les échelons de gouvernement au Canada représentent 15 pour 100 du produit national brut. En répondant aux besoins des organismes gouvernementaux, les petites entreprises peuvent croître. Il est donc important de connaître ces organismes ainsi que les procédés qui gouvernent l'approvisionnement du secteur public.

Les méthodes d'approvisionnement les plus courantes sont l'achat direct auprès de fournisseurs autorisés et les appels d'offres communiqués à des fournisseurs figurant sur une liste approuvée. Seul le ministère fédéral des Travaux publics a recours régulièrement aux appels d'offres ouverts qu'il rend publics. Cela signifie qu'une entreprise doit figurer sur une liste pour être fournisseur du gouvernement. Les entreprises peuvent se faire inscrire sur différentes listes; les échelons de gouvernement publient des documents visant à aider les entreprises à faire inscrire leurs produits ou leurs services.

Outre la recherche d'un bon rapport qualité-prix, les politiques d'achat des gouvernements peuvent comprendre des exigences précises portant, entre autres, sur le contenu canadien ou le développement régional. Selon l'exigence la plus courante, les fournisseurs dont les produits ont un contenu étranger élevé sont pénalisés. Les fournisseurs sont

tenus d'évaluer le contenu non canadien de leur offre, et celle-ci se voit imposer une pénalité maximum de 10 pour 100 du prix correspondant à ce contenu.

Le Processus d'examen du développement industriel (PEDI) du gouvernement de l'Ontario vise à utiliser les achats du gouvernement pour favoriser le développement des entreprises. Ce programme comporte l'examen de tous les achats d'un montant supérieur à 250 000 $ dans le but d'encourager le développement industriel. Le PEDI n'a pas été appliqué à l'échelle du gouvernement, et il a eu une incidence négligeable sur les décisions d'achat, sans doute parce que la plupart de ces achats mettaient en jeu une somme inférieure à 250 000 $.

Selon le rapport du Conseil du premier ministre, les achats sont si bien répartis parmi les fournisseurs ontariens qu'aucune compagnie n'a pu obtenir une clientèle suffisante pour devenir concurrentielle et fabriquer des produits à bas prix de manière à se servir de sa production canadienne comme tremplin pour devenir exportateur. Le Conseil a recommandé l'adoption d'un plan stratégique d'approvisionnement visant à accorder des contrats importants aux entreprises qui ont les ressources et la volonté nécessaires pour s'infiltrer sur les marchés mondiaux. Un tel plan aurait évidemment des répercussions sur les petites entreprises qui sont fournisseurs du gouvernement.

Bien qu'il soit efficace dans certains cas, le lobbying est coûteux et constitue souvent une activité moralement douteuse. En général, les petites entreprises n'y ont pas recours. Cependant, il est utile de faire connaître les produits, les services et les capacités de son entreprise aux responsables du ministère ou du comité qui évaluent les achats et les soumissions, particulièrement si une bonne partie du montant de la soumission s'applique à des services ou à l'apport de connaissances spécialisées.

Les entrepreneurs devraient faire tout en leur pouvoir pour s'assurer que la communication est bonne entre le ministère client et leur compagnie. Les soumissions doivent être complètes, claires et sans ambiguïté, et le suivi doit être assuré personnellement si possible. Si la soumission est rejetée, il faut déterminer pourquoi afin de mieux planifier sa prochaine soumission.

Il est utile d'entretenir des rapports personnels avec les organismes et les ministères clients pour les tenir informés au sujet des produits et des services de l'entreprise et pour obtenir rapidement des impressions sur les prix, les services ainsi que la qualité et l'utilité de ses produits.

En outre, le gouvernement fédéral organise des conférences sur la situation de l'approvisionnement ainsi que des séances d'information

pour les fournisseurs dans le but d'informer le monde des affaires de ses besoins futurs.

LES OBSTACLES À LA PARTICIPATION

Plusieurs obstacles s'opposent à la participation active des petites entreprises au processus d'approvisionnement du gouvernement.

Du point de vue du gouvernement, la fiabilité du fournisseur constitue un facteur important. Il faut donc convaincre l'organisme acheteur que son entreprise est stable et qu'elle dispose de ressources financières suffisantes pour respecter ses engagements en vertu de l'entente d'approvisionnement. Cela ne posera pas de problèmes si l'entente porte sur un produit standard qui fait partie de la production normale de la compagnie. Cependant, si l'entreprise est nouvelle ou inconnue, ou si le contrat porte sur une partie importante de sa production, le fait de ne pas établir de rapports avec les organismes clients au cours du processus d'appel d'offres peut entraîner le rejet de la soumission, même si le prix demandé est le plus bas.

Du point de vue des petites entreprises, l'obstacle le plus important est la réglementation et la paperasserie qui accompagnent le processus d'approvisionnement et qui font augmenter les frais d'exploitation. Comme le gouvernement cherche également à réaliser des économies, les contrats peuvent donner lieu à une marge brute plus faible que la normale, ce qui constitue une situation dangereuse pour de nombreuses petites entreprises. En outre, si le contrat offert par le gouvernement porte sur une partie importante de la production de la compagnie, il faut envisager les effets d'une production en dents de scie et déterminer ce qui arriverait à l'entreprise si elle ne décrochait pas un contrat semblable l'année suivante.

Certains frais, tels que ceux engagés pour la conception et la certification de composantes selon une norme militaire pour le ministère de la Défense nationale, sont inévitables. D'autres dépenses immédiates importantes, comme le temps consacré à la préparation du produit ou de la soumission elle-même, peuvent être généralement récupérées si l'entreprise décroche le contrat. Cependant, si la soumission est refusée, ces frais doivent être absorbés. Même si l'entreprise décroche le contrat, les complexités administratives peuvent retarder les paiements pendant une période plus longue que la normale, et l'entreprise devra absorber les frais financiers associés au financement théorique des comptes-clients.

Pour réduire le coût de la soumission et améliorer les chances qu'elle soit acceptée, il faut se mettre à la place des personnes qui auront à

accorder le contrat. On doit ainsi utiliser les formulaires standard du gouvernement et les remplir correctement et complètement, pour fournir au gouvernement les renseignements de base qui lui sont nécessaires pour évaluer la soumission. On peut également joindre des documents qui soulignent les avantages du produit, afin de distinguer la soumission des autres. La soumission devra se distinguer non seulement par le prix, mais également par son exhaustivité et son professionnalisme, car le prix constitue rarement le seul critère sur lequel se fonde l'attribution d'un contrat. Une attention particulière doit être portée à la communication entre l'entreprise et le gouvernement; l'entrepreneur doit se faire connaître et chercher à savoir ce dont le gouvernement a vraiment besoin.

Il est important de comprendre la différence entre les divers types de demandes d'offres du gouvernement : les demandes de prix, les demandes de propositions et les appels d'offres, qui peuvent donner lieu à des soumissions différentes. Par exemple, une demande de proposition nécessite généralement une offre et des idées originales en plus du respect des exigences précises énumérées dans la demande.

Enfin, le processus d'approvisionnement du gouvernement fédéral est centralisé au ministère des Approvisionnements et Services et au ministère des Travaux publics, situés à Ottawa. Celui de l'Ontario est décentralisé; il relève des différents ministères, et est de plus en plus réparti à l'échelon régional. Ainsi, la vente aux deux paliers de gouvernement peut nécessiter des approches différentes.

La croissance des petites entreprises

Pour les petites entreprises, la croissance constitue une arme à deux tranchants. Plusieurs chapitres du présent rapport traitent des problèmes qu'elle peut poser sur les plans des finances et de la gestion.

Les problèmes financiers causés par la croissance sont généralement faciles à comprendre : ainsi, le taux optimal de croissance des ventes et de la production dépasse presque toujours la capacité de l'entreprise de les financer par des mouvements internes de trésorerie. Si l'entreprise est solvable, qu'elle est bien gérée et que son avenir est prometteur, elle pourra réunir des sommes suffisantes provenant des sources mentionnées au chapitre 8. Cependant, il est beaucoup plus difficile pour l'entreprise en difficulté de trouver de l'argent pour prendre de l'expansion.

Dans une grande société, la gestion peut être confiée à plusieurs vice-présidents; cependant, la plupart des petites entreprises ne comptent qu'un ou deux cadres supérieurs. Le propriétaire, quant à lui, doit con-

sacrer beaucoup de son temps et de ses capacités à diriger son entreprise. Il est possible qu'il soit un entrepreneur, un ingénieur ou un vendeur fantastique, mais il est très peu probable qu'il puisse tout faire, particulièrement pendant les périodes de forte croissance et d'expansion. Dans cette situation, le propriétaire peut se voir forcé de déléguer des pouvoirs de direction à des spécialistes de différents domaines. Il est étonnant de constater le nombre d'entrepreneurs qui attendent d'arriver au seuil de la faillite avant de s'y résoudre.

Le gouvernement de l'Ontario est très intéressé à aider les compagnies à connaître une croissance rapide. L'essor et le développement continus du marché du capital de risque aideront à régler les problèmes financiers associés à la croissance. Cependant, le problème de la gestion, c'est-à-dire celui qui consiste à décider du moment où il faut accepter de déléguer des pouvoirs, n'est pas aussi facile à résoudre, bien qu'on puisse y arriver par l'éducation.

À l'aube des années 1990, la formation professionnelle joue un rôle de plus en plus important dans l'essor des petites entreprises ontariennes. La concurrence internationale devenant de plus en plus forte, la réussite d'une entreprise dépend de sa capacité à appliquer les mêmes normes de qualité et à offrir les mêmes prix que ses concurrents étrangers. Pour égaler, voire surpasser leur performance, il lui est essentiel de disposer d'une main-d'oeuvre bien formée et hautement qualifiée.

La complexité croissante des nouvelles techniques utilisées au travail, et donc de l'équipement, suppose un personnel compétent. Au Canada, l'informatique touche environ un emploi sur dix et, d'après les projections, les technologies de système dans l'industrie manufacturière, en particulier dans les activités de fabrication automatisées et la conception assistée par ordinateur, vont jouer un rôle de plus en plus important. Cependant, ces nouvelles techniques sont coûteuses à mettre en place, et le matériel doit être entretenu et utilisé par des spécialistes.

Les employés doivent souvent être formés dans divers domaines. Ils doivent avoir, dans tous les cas, des connaissances en gestion et en marketing. Le sens de l'analyse et l'entregent sont indispensables au travail en équipe, à la résolution des problèmes et des conflits et à la communication, surtout dans les entreprises de services où l'accent est mis sur la personne et où, par conséquent, les employés constituent le plus grand atout de l'employeur.

Les petites entreprises ont l'habitude d'engager des employés qui ont été formés dans de grandes compagnies, mais cette pratique devra probablement cesser. Avec l'essor de l'informatisation, même les plus petites entreprises devront assurer le perfectionnement de leurs employés. Il

est indispensable d'organiser fréquemment des cours de perfectionnement professionnel afin de répondre aux besoins variés de l'entreprise.

Or, pour ces employeurs, qui n'ont en général ni de véritables structures de formation, ni d'agents de formation, il est particulièrement difficile d'offrir régulièrement des cours de formation adéquats, sans oublier que le coût d'un tel programme les met, en plus, dans une position désavantageuse face aux grandes entreprises et aux entreprises étrangères. Il est donc important que ces employeurs puissent avoir recours à des spécialistes de l'extérieur qui les aideront à préparer des programmes de formation individualisés et à les mettre en oeuvre.

Le financement des entreprises

Deux types de financement sont possibles : le financement par actions et le financement par emprunt.

Dans le cadre du financement par actions, des sommes sont avancées en retour d'une participation dans l'entreprise. Les personnes qui versent du capital de risque dans l'entreprise deviennent copropriétaires de celle-ci et participent aux profits (et aux pertes) futurs. Le capital de risque présente l'avantage qu'il n'a pas à être remboursé, et qu'il ne fait pas l'objet de paiements réguliers d'intérêts. Il faut par contre renoncer à une partie de la propriété de l'entreprise. Les propriétaires profitent de la croissance de l'entreprise, mais assument également les risques d'échec; c'est pour cela que l'argent qu'ils investissent est désigné sous le nom de capital de risque.

Dans le cadre du financement par emprunt, des sommes sont avancées à l'entreprise à la condition qu'elles soient remboursées, soit à un moment déterminé (prêt remboursable sur demande), soit régulièrement sur une certaine période. En retour, des intérêts sont imposés. L'entrepreneur demeure le seul propriétaire de l'entreprise; cependant, pour garantir le prêt, lui et son entreprise devront habituellement donner en garantie des biens d'une valeur au moins égale aux sommes avancées. Si le prêt n'est pas remboursé comme convenu, ces biens peuvent être confisqués par le prêteur à titre de compensation.

Les petites entreprises font généralement appel à la fois au financement par emprunt et au financement par actions. Le capital de risque provient souvent d'amis et de membres de la famille de l'entrepreneur, et les emprunts sont contractés auprès de banques à charte et souvent garantis par des biens personnels, tels que la maison familiale. Les petites entreprises peuvent également faire appel à une troisième source de financement, c'est-à-dire les prêts et les subventions que leur offrent les

différents échelons de gouvernement. Cette dernière source n'est pas exploitée par toutes les petites entreprises, souvent en raison des sommes d'argent relativement peu élevées qu'elles pourraient obtenir et à cause de la paperasserie et de la réglementation qui accompagnent certains programmes d'aide. D'autres sources de financement sont abordées au chapitre 8.

Les entrepreneurs sous-estiment invariablement le temps et les dépenses nécessaires pour financer leur entreprise et surestiment les revenus qu'ils en tireront. Ainsi, peu après son établissement, la compagnie se trouve presque toujours aux prises avec des problèmes financiers qui peuvent la mener à la faillite à moins qu'elle n'ait accès à du financement d'urgence, ce qui est extrêmement rare. Ce problème peut frapper même les entreprises qui écoulent toute leur production. Pour éviter cette situation, il faut recueillir des sommes plus élevées que ce qui semble nécessaire pour le démarrage. Ces sommes pourront servir de réserve stratégique qui permettra à la petite entreprise de surmonter les nombreuses difficultés qui peuvent survenir au début de son développement.

Le financement par emprunt

Le financement par emprunt des petites entreprises est assuré principalement par les banques à charte canadiennes. Même les programmes d'aide gouvernementaux sont souvent gérés par les banques. Les petites entreprises représentent environ 25 pour 100 du portefeuille de prêts des banques à charte.

Il ne faut pas oublier que les sommes prêtées par les banques ne constituent pas du capital de risque. Les banques exigeront des garanties et une preuve de l'engagement financier du propriétaire dans l'entreprise. Celui-ci aura donc plus de chances d'obtenir un prêt si son projet d'entreprise est bien fait. La négociation d'un prêt ne constitue d'ailleurs que le début de rapports à long terme concernant le financement de l'entreprise, qui doivent être entretenus par l'échange de renseignements et un sentiment de confiance mutuelle.

Dans leurs finances personnelles, bien des gens évitent de s'endetter, mais pour les entreprises, ce n'est peut-être pas la meilleure chose à faire. En effet, beaucoup d'entreprises pourraient devenir plus rentables si elles avaient recours à un certain levier financier. Les compagnies qui n'empruntent pas connaîtront peut-être une croissance plus lente que les autres.

Les entrepreneurs qui ont élaboré un projet d'entreprise valable mais

qui se sont vu refuser un prêt bancaire peuvent recourir à différents programmes gouvernementaux. Par exemple, un programme fédéral établi dans le cadre de la Loi sur les prêts aux petites entreprises (LPPE) garantit 85 pour 100 du prêt contracté par une entreprise qui répond à certains critères. Cela permet aux banques de financer des investissements qui présentent plus de risques que la moyenne. La restriction la plus importante de ce programme est que les sommes accordées doivent servir à l'amélioration ou à l'acquisition de biens servant à la production, et non à augmenter le fonds de roulement ou à financer les dépenses d'exploitation.

La Banque fédérale de développement (BFD), dont le mandat est de favoriser le développement des entreprises canadiennes et qui se spécialise dans le financement de projets de lancement d'entreprise qui ont été refusés par les banques, constitue une autre source de financement. Pour compenser les risques élevés, la BFD exige des taux d'intérêt supérieurs. (En outre, elle fournit des services et de la formation en gestion et organise des séminaires, et peut être très utile à votre entreprise, même si vous n'êtes pas l'un de ses clients.)

Les sociétés de développement, qui ont des bureaux dans toutes les régions de la province, sont chargées de l'application de plusieurs programmes provinciaux. Elles offrent des prêts à terme, des subventions pour le paiement d'intérêts et des garanties aux entreprises qui présentent des risques élevés. La Société de développement de l'Ontario (SDO), qui est responsable du programme Nouvelles entreprises, offre des garanties pour des prêts contractés par des entreprises qui démarrent. Seuls les intérêts sont exigibles au cours de la première année. L'entreprise doit effectuer un examen de ses activités tous les six mois, ce qui aide les emprunteurs qui n'ont pas de projet d'entreprise à s'organiser.

Le financement par actions

Dans le cadre de cette forme de financement, c'est le plus souvent la famille ou les amis de l'entrepreneur qui sont les premiers à lui avancer de l'argent en retour d'actions de la compagnie. La plupart des nouvelles entreprises ne font jamais appel au financement par une société de capital de risque; il est cependant possible qu'elles en aient besoin après avoir connu une certaine croissance.

L'industrie du capital de risque n'est pas aussi importante au Canada qu'aux États-Unis, mais comme la création de nouvelles entreprises s'accélère et que d'importants régimes de retraite y orientent une partie

de leurs ressources, elle est en plein essor.

De nombreux entrepreneurs sont réticents à vendre des actions car ils ont peur de perdre le contrôle ou les profits de leur compagnie. Cependant, les sociétés de capital de risque ne cherchent presque jamais à prendre le contrôle des compagnies; elles ne sont pas intéressées à les diriger. En outre, puisque le taux de croissance d'une compagnie bien financée peut être fortement supérieur à celui d'une compagnie qui manque d'argent, le financement par capital de risque peut entraîner des profits plus élevés pour le propriétaire.

Les sociétés de capital de risque visent à retirer leur mise de fonds après trois à cinq ans, car la plus grande partie de leur rendement sera sous forme de gains en capital, et non de dividendes. Ainsi, il est plus probable qu'elles investissent dans des compagnies jeunes qui connaissent une forte croissance, plutôt que dans des compagnies qui démarrent ou dont la création remonte à un certain temps. Pour combler cette lacune, les différents échelons de gouvernement cherchent donc à fournir des capitaux de lancement aux entreprises qui démarrent, qui peuvent ainsi profiter des avantages du capital de risque.

Un programme ontarien permet aux particuliers et aux entreprises de mettre sur pied une compagnie pour l'expansion des petites entreprises (CEPE), qui investit ensuite dans une petite entreprise. Les investisseurs reçoivent une subvention en argent ou sous forme de crédit d'impôt équivalant à 25 pour 100 de leur investissement, et continuent à participer à la croissance de la petite entreprise à titre d'actionnaires.

Dans le cadre du Régime d'actionnariat des employés (RADE), des subventions sont offertes aux employés admissibles qui veulent acheter des actions de l'entreprise où ils travaillent en vertu d'un régime d'actionnariat enregistré auprès du ministère du Revenu. Les employés qui achètent des actions en vertu d'un régime enregistré peuvent demander une subvention équivalant à 15 pour 100 du prix d'achat des actions, jusqu'à concurrence de 300 $ par année. Il peut se révéler très utile de permettre à ses employés d'acheter des actions de son entreprise, non seulement parce qu'ils constituent alors une source de financement supplémentaire, mais également parce qu'ils seront plus intéressés qu'auparavant à ce que la compagnie réalise des profits, ce qui les motivera et les encouragera à aider la compagnie à réussir sur le plan financier.

La Société Innovation Ontario, associée à la SDO, contribue au démarrage d'entreprises de haute technologie en leur fournissant des fonds de lancement. Cet investissement peut être progressivement racheté par l'entreprise (comme s'il s'agissait du remboursement d'un

prêt) ou retiré par la vente d'actions à un tiers, selon les modalités négociées par l'entreprise et la Société Innovation Ontario. La Société offre également de l'aide sur le plan technique et sur celui de la commercialisation.

Programmes d'aide gouvernementaux

Ce dont les petites entreprises semblent avoir le plus besoin, c'est d'argent, mais ce n'est pas forcément le cas. Même une compagnie bien financée peut faire faillite si elle est mal gérée. L'importance de l'esprit d'entreprise pour la santé économique du pays est reconnue de tous, et les personnes qui sont intéressées à diriger leur propre entreprise peuvent profiter de nombreux programmes gouvernementaux visant à les informer et à les aider.

Les librairies et les bibliothèques peuvent mettre à la disposition des entrepreneurs d'excellents ouvrages qui les aideront à préparer un projet d'entreprise. Le ministère de l'Industrie, du Commerce et de la Technologie de l'Ontario (MICT) a mis au point un séminaire et publié un ouvrage intitulé *Fondation d'une petite entreprise en Ontario*, qui permettent d'obtenir des renseignements pratiques sur les projets d'entreprise. En outre, la Banque fédérale de développement donne un cours sur le démarrage d'une petite entreprise.

Presque toutes les universités ontariennes offrent aux petites entreprises un service de consultation à peu de frais. Les deux tiers de ces centres sont ouverts toute l'année, et les autres seulement durant l'été.

Six centres d'entreprenariat, situés dans certains collèges et universités, invitent des experts de l'extérieur à évaluer des projets d'entreprise et à conseiller les nouveaux entrepreneurs, même si leur principale raison d'être est d'effectuer des études sur l'esprit d'entreprise.

Des centres d'information ont été ouverts dans de nombreuses localités. Ces centres mettent à la disposition des personnes qui prévoient lancer une nouvelle entreprise une bibliothèque et les services d'un expert-conseil.

TVOntario, le réseau de télévision éducative de la province, diffuse un certain nombre d'émissions, telles que la série populaire intitulée *Frontrunners*, qui portent sur le lancement et l'exploitation d'une entreprise. Les émissions sont diffusées à plusieurs reprises pendant l'année, et certaines d'entre elles permettent d'obtenir des crédits de niveau collégial.

Dans le cadre de ses deux programmes Mise en marche, Capital

d'entreprise pour les jeunes et Capital d'entreprise pour les étudiants, le ministère de la Formation professionnelle de l'Ontario offre des prêts sans intérêt aux jeunes qui ont de bonnes idées et qui veulent lancer une entreprise. Ces programmes sont gérés en collaboration avec la Banque Royale du Canada et la Chambre de commerce de l'Ontario, par l'entremise des chambres de commerce locales.

Le programme Initiatives locales pour le développement des entreprises de la Banque fédérale de développement (BFD) aide les entrepreneurs et leurs entreprises à trouver la voie de la croissance et de la prospérité. Ce programme est fondé sur des cours pratiques qui aident l'entrepreneur à utiliser au maximum les ressources dont il dispose et à faire fructifier les bénéfices de son entreprise.

Operation Youth, société fédérale à but non lucratif, a mis sur pied un programme visant à aider les jeunes à lancer leur propre entreprise. Dans le cadre de ce programme, les jeunes acquièrent des connaissances en matière de commerce et de gestion et reçoivent les conseils de spécialistes auxquels ils n'auraient pas normalement accès. Le programme appuie l'entreprise au cours de ses trois premières années d'exploitation par les services suivants :

- Séance de formation de trois jours sur le lancement et l'exploitation d'une petite entreprise;
- Conseils continus sur tous les aspects de la gestion d'une petite entreprise pendant trois ans;
- Accès à un système informatique sur les programmes d'aide auxquels peuvent faire appel les jeunes entrepreneurs;
- Association qui regroupe un certain nombre d'entreprises dans le but de réduire les frais généraux et de tirer des avantages de la coopération.

Le programme Youth Enterprise du YMCA, service gratuit qui aide les jeunes entrepreneurs à planifier et à lancer leur propre entreprise, est destiné aux personnes de 18 à 30 ans qui n'occupent pas un emploi à temps plein. Dans le cadre d'un programme de formation de 10 semaines, les jeunes apprennent les différentes étapes du lancement d'une entreprise, en particulier les notions fondamentales de tenue de registres, de commercialisation, de finance et d'exploitation. Un suivi est également fourni pendant la première année d'exploitation de l'entreprise.

Le ministère de la Formation professionnelle offre aux petites entreprises ontariennes une aide individualisée. En collaboration avec le

personnel des bureaux de consultation en formation professionnelle du ministère, situés un peu partout en Ontario dans les collèges d'arts appliqués et de technologie, les employeurs définissent leurs besoins en formation et préparent des programmes détaillés.

Ces bureaux veillent également à l'application du Programme de formation professionnelle de l'Ontario, destiné à défrayer les petites entreprises d'une partie de leurs frais de formation. Ainsi, une entreprise de 200 employés ou moins peut se faire rembourser jusqu'à 80 pour 100 de ses coûts de formation directs.

Dans le cadre du Programme d'apprentissage, les entreprises engagent des stagiaires dans le but de leur donner une véritable formation technique, acquise en cours d'emploi et complétée par des cours théoriques. Le personnel spécialisé d'une entreprise peut également suivre une formation complémentaire grâce au Programme de recyclage de la main-d'oeuvre qualifiée, qui est offert gratuitement dans les collèges d'arts appliqués et de technologie, en milieu de travail et par des organismes de formation.

Autre service offert gratuitement aux employeurs, le Programme de recyclage des techniciens et des technologistes met l'accent sur les nouvelles technologies, comme la conception assistée par ordinateur, la gestion des technologies et les techniques de communication.

En outre, dans le cadre du Programme de formation de base en milieu de travail, le ministère assume jusqu'à 100 pour 100 des frais de formation des employeurs qui organisent pour leurs employés des cours de perfectionnement en lecture, écriture et calcul.

Sous le titre Planification de l'emploi, le gouvernement fédéral gère un certain nombre de programmes de formation concernant les petites entreprises, comme le programme Pénuries de main-d'oeuvre spécialisée qui participe aux frais de perfectionnement qu'engagent les employeurs pour aider leurs employés qui occupent des emplois où il existe ou risque d'exister une pénurie de main-d'oeuvre spécialisée, selon la classification du gouvernement fédéral. Citons aussi le programme Acquisition de compétences qui aide les travailleurs menacés par l'évolution technologique et économique à changer de profession.

Renseignements

- Pour obtenir de plus amples renseignements sur les programmes d'aide aux petites entreprises du MICT, téléphonez sans frais à Renseignements Petites Entreprises, au 1-800-387-6142.

- Le MICT organise des séminaires et publie différents documents, notamment *Fondation d'une petite entreprise en Ontario*, ouvrage destiné aux nouveaux entrepreneurs, qui contient des renseignements pratiques sur les projets d'entreprises, l'aide gouvernementale et la législation touchant les petites entreprises. Communiquez avec le :

  Service des publications de l'Ontario
  880, rue Bay
  Toronto (Ontario) M7A 1N8

  (416) 965-6015
  Si vous êtes à l'extérieur de la région de Toronto, composez le 1-800-268-7540.
  Si votre indicatif régional est 807, demandez au (à la) téléphoniste le Zénith 67200.

- Pour vous abonner à *Petite entreprise Ontario*, écrivez à

  Petite entreprise Ontario
  Édifice Hearst
  900, rue Bay, 7e étage
  Queen's Park
  Toronto (Ontario) M7A 2E3.

- Pour obtenir de plus amples renseignements sur l'aide financière des sociétés de développement, adressez-vous au :

  56, rue Wellesley ouest, 5e étage
  Toronto (Ontario) M7A 2E7
  (416) 965-4622

- Vous pouvez obtenir de plus amples renseignements sur la Société Innovation Ontario à l'adresse suivante :

  Société Innovation Ontario
  56, rue Wellesley ouest, 7e étage
  Toronto (Ontario) M7A 2E7
  (416) 963-5717

- Votre succursale de la Banque de Montréal peut mettre à votre disposition une série de dépliants sur les petites entreprises (Small Business Problem Solver). D'autres banques de votre région pourraient également vous offrir des publications utiles.

- L'Association des banquiers canadiens publie un excellent manuel intitulé *Le financement d'une petite entreprise - Sachez entretenir des relations harmonieuses avec votre banque.* Pour en recevoir un exemplaire, écrivez à :

  L'Association des banquiers canadiens
  C.P. 348, bureau 600
  2, First Canadian Place
  Toronto (Ontario) M5X 1E1

- On peut obtenir un dépliant et d'autres renseignements sur le programme de CEPE en écrivant au :

  Programme des compagnies pour
  l'expansion des petites entreprises
  Ministère du Revenu
  33, rue King ouest
  C.P. 625
  Oshawa (Ontario) L1H 8H9

- Pour obtenir des renseignements au sujet du Régime d'actionnariat des employés (RADE), téléphonez à frais virés au (416) 430-ESOP.

- Pour des renseignements sur les programmes de la Banque fédérale de développement, écrivez à la :

  Banque fédérale de développement

C.P. 335
Succursale Tour de la Bourse
Montréal (Québec) H4Z 1L4

(514) 283-5904
(416) 973-0062
ou téléphonez à la succursale de votre région.

- Pour obtenir de plus amples renseignements sur les programmes d'aide à l'exportation du gouvernement de l'Ontario, adressez-vous au bureau local du MICT, téléphonez ou écrivez à :

  Commercialisation à l'étranger
  900, rue Bay
  Édifice Hearst, 5e étage
  Toronto (Ontario)
  M7A 2E1

  Téléphone : (416) 963-2500
  Télécopieur : (416) 965-7791

- Le centre de renseignements sur le commerce extérieur du ministère des Affaires extérieures peut vous mettre en contact avec d'autres organismes fédéraux, tels que la Société pour l'expansion des exportations ainsi que la Corporation commerciale canadienne, et vous fournir des renseignements sur les programmes du MAE tels que WIN et sur les activités de promotion du commerce. Téléphonez à Info Export au 1-800-267-8376, ou au (613) 993-6435 dans la région d'Ottawa.

- Pour obtenir des renseignements sur les centres de consultation pour les petites entreprises des universités ontariennes (à l'exception de l'Université de Guelph), téléphonez à la faculté de commerce de l'université la plus proche qui vous indiquera comment entrer en contact avec le centre de votre localité.

- Voici la liste des six centres d'entreprenariat :

  Le Centre d'entreprenariat de Ryerson
  Le Centre d'entreprenariat de North Bay (Collège Canadore et Collège Nipissing)

Le Centre d'entreprenariat de l'Université Lakehead et du Collège Confederation
Entreprise York (à l'Université York)
Le Centre d'entreprenariat de l'Est de l'Ontario (situé à l'Université Queen's, au Collège St. Lawrence et au Collège Loyalist)
Le Centre d'entreprenariat du Collège Centennial

- Pour obtenir des renseignements sur les cours offerts par TVOntario, téléphonez au 1-800-268-6255.

- Pour obtenir des renseignements sur le programme Mise en marche, dans le cadre duquel le ministère de la Formation professionnelle offre des prêts sans intérêt aux jeunes voulant lancer une entreprise, communiquez avec une chambre de commerce, une succursale de la Banque Royale, ou avec le service de placement d'une école secondaire, d'un collège communautaire ou d'une université, ou encore téléphonez à Renseignements Jeunesse au 1-800-387-0777.

- Pour des renseignements sur les Initiatives locales pour le développement des entreprises, communiquez avec la BFD au (416) 973-1144.

- Pour en savoir plus sur Operation Youth, composez le (416) 861-1812.

- Pour des renseignements sur le programme Youth Enterprise du YMCA, communiquez avec le YMCA de votre localité; à Toronto, composez le 651-0010.

- Pour obtenir des renseignements sur le CTFAO, communiquez avec le :

  Centre de technologie de fabrication avancée de l'Ontario
  190, promenade Attwell, bureau 402
  Rexdale (Ontario) M9W 6H8

  (416) 675-4363

- Pour inscrire vos produits ou services dans la base de données centrale du gouvernement de l'Ontario, il suffit de remplir une demande de renseignements sur les fournisseurs que vous pourrez vous procurer au :

- Service de renseignements sur les fournisseurs
  Édifice Ferguson, 6e étage
  Queen's Park
  Toronto (Ontario) M7A 1N3
  (416) 965-6937

- Pour obtenir un exemplaire gratuit du *Guide des responsables des achats du secteur public de l'Ontario* destiné à ceux qui veulent devenir fournisseurs du gouvernement de l'Ontario, téléphonez à la Direction de l'expansion commerciale au (416) 965-1809.

- Pour obtenir de plus amples renseignements sur les programmes de formation et les services du ministère de la Formation professionnelle, composez le 1-800-387-5656.

Appendix: Small Business Advocacy Reports

These research reports are available from Small Business Advocacy, Ministry of Industry, Trade and Technology, 7th Floor, Hearst Block, 900 Bay Street, Toronto, Ontario M7A 2E1 (416) 965-6304.

1. **Survey of Small Business Registrants, 1984 (October 1984)**
   Results of interviewing 911 Ontario entrepreneurs about the businesses they start. Includes information on investment, hiring intent, previous experience, type of business, why the business was started and demographics.

2. **Self-Directed RRSP Investment in Private Companies (May 1985)**
   Survey of characteristics of holders of self-directed RRSPs (150 people). Results compared to information obtained from 2,000 people when they either opened self-directed RRSPs or transferred funds to such an RRSP. Survey was conducted on behalf of SBA by Decision Marketing Research Ltd.

3. **Expanding Ontario's Small Business Development Corporations Program to Business Services (May 1985)**
   Argument for extending eligibility under Ontario's SBDC program to Ontario's business service firms. Also argues for expansion of SBDC's existing Match-up Service to introduce appropriate SBDC investors and small business owners and emphasize smaller placements of equity.

4. **An Advance Notice System for Proposed Regulatory Initiatives (September 1985)**
   Proposal to create an Advance Notice System in Ontario. Includes an examination of advance notice in place in other jurisdictions, description of Ontario's history with respect to advance notice, identification of principles to be considered in any improvement of the regulatory process and policy options and recommendations.

5. **Newly-Formed Small Businesses in Ontario, 1982-84 (August 1985)**
Results of interviewing 861 Ontario entrepreneurs. Provides a profile of Ontario's small business owners and their attitudes about various issues and programs, as well as a comparison of unincorporated and incorporated businesses. As well, the research provides a profile of the kinds of businesses that are started and remain viable. Survey was conducted on behalf of SBA by The Creative Research Group.

6. **Small Business Payroll Taxes (March 1986)**
The economic implications of payroll taxation on small businesses are examined. Also looks at the effects of abolishing Ontario Health Insurance Plan premium payments and replacing the payments with a 2% employer-paid payroll tax. Features an examination of impacts on an average small business, a garage, a restaurant, a construction firm and a manufacturer.

7. **Small Business Regulation and Paperburden (March 1986)**
A joint project of SBA and the Department of Regional Industrial Expansion, Ontario Region, the study identifies and clarifies specific areas of regulatory and paperburden in Ontario's small business community. Looks at problems and problem sources identified by the general economic sectors and more specifically the tourism sector. Survey was conducted by The DPA Group Incorporated.

8. **Entrepreneurship and Small Business (May 1986)**
A discussion paper tabled in the Ontario Legislature by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil, as a supplement to the Ontario Budget of April 1986. Describes: entrepreneurship in Ontario, new business formation and small firm performance.

9. **The Ontario Investment Network (April 1986)**
Describes the rationale for the establishment of the Ontario Investment Network (presently operated by the Ontario Chamber of Commerce under the name Computerized Ontario Investment Network - COIN). Discusses the chronic shortage of equity capital suffered by the small business community across Canada.

10. **New Small Businesses (April 1986)**
The 1986 survey of new unincorporated business starts. The results of 1,118 interviews show the age, sex, previous ownership and employment experience of new business owners as well as the reasons for starting the business. The study also breaks down the startups by sector and expected billings and source of investment.

11. **New Ventures: A Loan Guarantee Program for New Businesses in Ontario (June 1986)**
Describes rationale for the New Ventures Program, announced in the Speech from the Throne in April 1986. Discusses access to financing problems of small businesses. Shows design of the New Ventures program including details on eligibility criteria, program administration, roles of co-sponsors, application processes and costs of program. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate.

12. **Small Business Capitalization and Proposed Pension Investment Reforms (August 1986)**
SBA submission to the Pension Commission of Ontario regarding the policy recommendations for the regulation of pension fund investments. Argues for expanding the universe of eligible pension fund investments to include more small businesses. Includes copy of the Pension Commission recommendations.

13. **Targetting Employee Share Ownership Plans to Small Business (September 1986)**
Describes the rationale for targetting the Employee Share Ownership Plans program (announced in the June 1986 Budget) to small businesses. Provides recommendations on how the plan's optimum use by the small business community may be encouraged.

14. **Workers' Compensation Experience Rating: A Claim Deductible Concept (October 1986)**
The study examines the feasibility of introducing a concept of a claims deductible into the experience rating of claims costs under Workers' Compensation in Ontario. Study was conducted on behalf of SBA by William M. Mercer Ltd.

15. **Hours of Work and Overtime in Small Businesses: Five Case Studies (December 1986)**
Case studies of hours of work and overtime practices in five Ontario firms: sewer and water main contracting, clothing manufacturer, courier and moving service, lumber and building supply and weigh scale repair and distribution. Qualitative research on attitudes of owners towards overtime and data on firms and their practices.

16. **The State of Small Business (December 1986)**
The first annual report on small business in Ontario. Features data on: the job creation record and growth of small business, profiles of the small business owner, franchising, women business owners, the aspirations and achievements of new business owners, small business financing and effects of public policy on the small business community. Tabled in the Ontario Legislature in December 1986 by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate. Available in French as La Situation des petites entreprises.

17. **University Centres of Entrepreneurship for Ontario (February 1987)**
Describes rationale for the establishment of centres of entrepreneurship in Ontario universities. Included in the April 1986 Speech from the Throne.

18. **Ontario's Fast-Growth Companies (April 1987)**
Examines the characteristics of 84 successful Ontario entrepreneurs. Study conducted on behalf of SBA by Decision Marketing Research Ltd.

19. **Small Business Payroll Taxes, 1987 (March 1987)**
The 1987 update of the 1986 Small Business Payroll Tax study. Focuses on the increasing burden Workers' Compensation places on small businesses.

20. **The Status of Female Employees in Small Business (June 1986)**
Survey of 353 Ontario small business owners (in the manufacturing sector) regarding the status of women in their firms. Examines employment patterns, wage and salary administration, personnel practices and company policies. Also looks at which form of pay equity legislation would least affect the viability of small businesses. Survey was conducted on behalf of SBA by Hay Management Consultants.

21. **Pay Equity and Ontario's Small Business Sector (June 1986)**
Survey of 302 Ontario small business owners (representing all industrial sectors) regarding the types of personnel practices they follow in their firms. Also includes results of 16 interviews with persons knowledgeable about pay equity and small business regarding how to implement pay equity in small businesses. Survey conducted on behalf of SBA by Urban Dimensions Group Inc.

22. **Business Transfer Tax: Modelling the Impact on Small Firms (November 1987)**
Study demonstrates how profits and sales in several Ontario small businesses might be affected by the federal government's proposed business transfer tax. Examines eight types of businesses: retail florists (unincorporated and incorporated), retail drug stores (incorp.), retail jewellery stores (incorp.), rubber processors and suppliers (incorp.), fan and ventilator manufacturers (incorp.), engineering processing firms (incorp.) and lodges and motels (incorp.).

23. **Business Starts in Ontario: An Econometric Analysis and Forecasting Model (August 1987)**
Reports on the determinants of new business starts, including changes in population and labour force, industrial structure and rates of unemployment output growth, costs of borrowing and inflation. Includes a computer-based forecasting model for the next five years. Study carried out by Quantec Research Ltd.

24. **Hours of Work and Overtime in Small Business (January 1988)**
Compares sample of 300 small firms (fewer than 100 employees) with control group of 60 large firms to assess the impact of recommendations proposed by the Task Force on Hours of Work and Overtime submitted in May 1987. Finds that the proposals are unlikely to have a significant effect on overall average hours worked per week in Ontario, but that some of the recommendations affect small and large firms differently. Small businesses are relatively more affected by proposals to shorten the regular work week from 44 to 40 hours.

25. **Facilitating the Investment of Self-Directed RRSP Funds in Small Businesses (July 1988)**
Examines amendments to the federal Income Tax Act in 1986 permitting holders of Registered Retirement Savings Plans (RRSPs) to invest in small and developing businesses. Recommends simplifying the rules and shifting the burden of compliance from financial institutions to the involved parties. Contends that these changes will increase RRSP investments in small businesses.

26. **Safety Matters: Case Studies of Health and Safety Practices in the Workplace (September 1988)**
Case studies of 13 companies (of which 6 had fewer than 100 employees) examining the differences in approach between large, medium and small firms. Discloses that the larger the company, the more extensive its formal health and safety program. While larger companies have well-developed corporate health and safety philosophies, small firms tend to do positive things in the workplace because the owners care about their employees' welfare and are sensitive to the disruption an accident can cause.

27. **Newly-Formed Small Businesses in Ontario, 1985-87 (August 1988)**
Based on interviews with 1,055 small firms, updates the August 1985 report on newly-formed small companies. Focuses on management, operational and policy issues for both incorporated and unincorporated firms. Special efforts were made to increase the sample size of companies having more than 20 employees in order to better understand the phenomenon of

growth. Discloses that finding and keeping qualified employees is now the top-rated barrier facing young companies.

28. **Employment Standards in Small Firms (March 1988)**
By a telephone survey of 307 small Ontario businesses and a control group of 25 larger firms, examines employee compensation issues, including possible changes to the minimum wage, training, benefits, vacations and leave arrangements, subcontracting and contracting out, and retirement policies.

29. **An Equity Financing Vehicle for Growth Companies (January 1989)**
Discusses a possible Ontario investment vehicle to improve the equity financing of companies with growth potential. Applies the U.S. model of small business investment companies, under which the government guarantees debentures issued by investment companies that specialize in small business. This approach, successfully practiced in the U.S. since 1958, was responsible for the genesis of much of the American venture capital industry. It enabled venture capital firms to multiply their capital under management and operate at a scale sufficient to build up the investment, management, and marketing expertise necessary to manage a portfolio of growing firms.

30. **The State of Small Business, 1987 (December 1987)**
The second annual report on small business in Ontario. Features the Committee of Parliamentary Assistants for Small Business' proposal for a small business impact statement (SBIS)to set out in cabinet submissions the impact on the small business community of proposed changes in Ontario policy, legislation and regulations. Concentrates on the dynamic growth of small businesses in Ontario and includes research findings on where the jobs are coming from, the performance of successful young companies, remaining barriers to growth and the government's response.